



**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

North Central Local School District
Williams County
400 East Baubice Street
Pioneer, Ohio 43554-9637

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Local School District, Williams County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Local School District, Williams County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its policy regarding capital asset capitalization.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 17, 2006

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

Unaudited

The discussion and analysis of North Central Local School District's (the District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$257,759.
- General revenues accounted for \$5,990,194, or 91 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$556,566 or 9 percent of total revenues of \$6,546,760.
- The District's major funds included the General Fund and the Bond Retirement Fund. The General Fund had \$5,653,874 in revenues and other financing sources and \$5,951,209 in expenditures and other financing uses. The General Fund's balance increased \$297,335 from the prior fiscal year. The Bond Retirement Fund had \$2,829,948 in revenues and \$2,727,011 in expenditures. The Bond Retirement Fund's balance increased \$102,937 from the prior fiscal year.
- The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Fund are the only two major funds.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Unaudited

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues,

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Unaudited

expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**Table 1
Net Assets
Governmental Activities**

	<u>2004</u>
<u>Assets:</u>	
Current and Other Assets	\$4,190,410
Capital Assets, Net	4,463,921
Total Assets	<u>8,654,331</u>
<u>Liabilities:</u>	
Current and Other Liabilities	2,712,120
Long-Term Liabilities	<u>2,957,320</u>
Total Liabilities	<u>5,669,440</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,973,921
Restricted	880,341
Unrestricted	<u>130,629</u>
Total	<u>\$2,984,891</u>

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Unaudited

**Table 2
Change in Net Assets
Governmental Activities**

<u>Revenues:</u>	2004
Program Revenues:	
Charges for Services and Sales	\$269,610
Operating Grants, Contributions and Interest	268,531
Capital Grants and Contributions	18,425
Total Program Revenues	556,566
General Revenues:	
Property Taxes	2,375,474
Grants and Entitlements	2,914,722
Interest	24,116
Gifts and Donations	627,354
Miscellaneous	48,528
Total General Revenues	5,990,194
Total Revenues	6,546,760
 <u>Expenses:</u>	
Instruction	3,930,546
Support Services:	
Pupils	164,080
Instructional Staff	277,622
Board of Education	22,316
Administration	450,671
Fiscal	186,661
Operation and Maintenance of Plant	397,063
Pupil Transportation	396,548
Central	260,418
Non-Instructional	236,608
Extracurricular Activities	194,000
Miscellaneous	18,097
Capital Outlay	160,394
Interest and Fiscal Charges	109,495
Total Expenses	6,804,519
Change in Net Assets	(\$257,759)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to 2003 have not been presented since they are not available.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Unaudited

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
	2004	2004
Instruction	\$3,930,546	\$3,575,591
Support Services:		
Pupils	164,080	160,796
Instructional Staff	277,622	265,092
Board of Education	22,316	22,316
Administration	450,671	450,671
Fiscal	186,661	186,661
Operation and Maintenance of Plant	397,063	397,063
Pupil Transportation	396,548	396,548
Central	260,418	260,418
Non-Instructional	236,608	99,907
Extracurricular Activities	194,000	144,904
Miscellaneous	18,097	18,097
Capital Outlay	160,394	160,394
Interest and Fiscal Charges	109,495	109,495
Total Expenses	<u>\$6,804,519</u>	<u>\$6,247,953</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 91 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 93 percent. The remaining 7 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Fund. Total governmental funds had revenues of \$9,046,850 and expenditures of \$9,203,890. The net negative change of \$157,040 in fund balance for the year indicates that the District had difficulty in meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed. Final expenditures were budgeted at \$5,819,234 while actual expenditures were \$6,098,841.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$4,463,921 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$2,490,000 in general obligation bonds, which refunded the District's 1992 general obligation bonds issue. The bonds were issued for a twelve-year period, with final maturity on December 1, 2015. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2004, the District's overall legal debt margin was \$4,599,673, with an un-voted debt margin of \$78,774.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Pioneer is a small rural community of approximately 1500 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 35.8 percent of District revenue sources are from local funds, 43.5 percent from state funds and the remaining 3.3 percent is from federal funds. The total expenditure per pupil was calculated at \$9,912. Future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction and eventual elimination of personal property tax for business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sandi Lashaway, Treasurer, North Central Local School District, 400 East Baubice Street, Pioneer, Ohio 43554.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$1,824,894
Materials and Supplies Inventory	17,817
Accounts Receivable	1,512
Intergovernmental Receivable	53,099
Taxes Receivable	2,293,088
Non-Depreciable Capital Assets	607,317
Depreciable Capital Assets, net	<u>3,856,604</u>
Total Assets	<u>8,654,331</u>
 LIABILITIES:	
Accounts Payable	13,402
Accrued Wages and Benefits	468,245
Intergovernmental Payable	136,886
Matured Compensated Absences Payable	16,424
Deferred Revenue	2,077,163
Long-Term Liabilities:	
Due Within One Year	200,000
Due in More Than One Year	<u>2,757,320</u>
Total Liabilities	<u>5,669,440</u>
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1,973,921
Restricted for Debt Service	730,984
Restricted for Capital Outlay	1,499
Restricted for Other Purposes	147,858
Unrestricted	<u>130,629</u>
Total Net Assets	<u><u>\$2,984,891</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$2,695,206	\$91,214	\$78,038	\$18,425	(\$2,507,529)
Special	642,443		167,278		(475,165)
Vocational	122,982				(122,982)
Other	469,915				(469,915)
Support Services:					
Pupils	164,080		3,284		(160,796)
Instructional Staff	277,622		12,530		(265,092)
Board of Education	22,316				(22,316)
Administration	450,671				(450,671)
Fiscal	186,661				(186,661)
Operation and Maintenance of Plant	397,063				(397,063)
Pupil Transportation	396,548				(396,548)
Central	260,418				(260,418)
Operation of Non-Instructional Services	236,608	129,300	7,401		(99,907)
Extracurricular Activities	194,000	49,096			(144,904)
Miscellaneous	18,097				(18,097)
Capital Outlay	160,394				(160,394)
Debt Service:					
Interest and Fiscal Charges	109,495				(109,495)
Totals	<u><u>\$6,804,519</u></u>	<u><u>\$269,610</u></u>	<u><u>\$268,531</u></u>	<u><u>\$18,425</u></u>	<u><u>(6,247,953)</u></u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	2,070,736
Property Taxes, Levied for Debt Service	304,738
Grants and Entitlements not Restricted to Specific Programs	2,914,722
Gifts and Donations	8,958
Investment Earnings	24,116
Revenue in Lieu of Taxes	618,396
Miscellaneous	48,528
Total General Revenues	<u>5,990,194</u>
Change in Net Assets	(257,759)
Net Assets Beginning of Year (See note 3)	3,242,650
Net Assets End of Year	<u><u>\$2,984,891</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$882,561	\$717,142	\$147,204	\$1,746,907
Materials and Supplies Inventory	11,788		6,029	17,817
Accounts Receivable			1,512	1,512
Interfund Receivable	25,476			25,476
Intergovernmental Receivable			53,099	53,099
Taxes Receivable	2,049,934	243,154		2,293,088
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	77,987			77,987
Total Assets	<u>\$3,047,746</u>	<u>\$960,296</u>	<u>\$207,844</u>	<u>\$4,215,886</u>
Liabilities				
Current Liabilities:				
Accounts Payable	\$10,898		\$2,504	\$13,402
Accrued Wages and Benefits	440,980		27,265	468,245
Interfund Payable			25,476	25,476
Intergovernmental Payable	83,054		3,242	86,296
Matured Compensated Absences Payable	16,424			16,424
Deferred Revenue	1,909,518	\$233,536	47,423	2,190,477
Total Liabilities	<u>2,460,874</u>	<u>233,536</u>	<u>105,910</u>	<u>2,800,320</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	101,019		8,135	109,154
Reserved for Inventory	11,788		6,029	17,817
Reserved for Property Taxes	140,416	9,618		150,034
Reserved for Textbooks and Instructional Materials	77,987			77,987
Unreserved, Undesignated, Reported in:				
General Fund	255,662			255,662
Special Revenue Funds			87,550	87,550
Debt Service Funds		717,142		717,142
Capital Projects Funds			220	220
Total Fund Balances	<u>586,872</u>	<u>726,760</u>	<u>101,934</u>	<u>1,415,566</u>
Total Liabilities and Fund Balances	<u>\$3,047,746</u>	<u>\$960,296</u>	<u>\$207,844</u>	<u>\$4,215,886</u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$1,415,566
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		4,463,921
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental funds.		113,314
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(50,590)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(2,490,000)	
Compensated Absences Payable	(467,320)	
		<u>(2,957,320)</u>
Net Assets of Governmental Activities		<u><u>\$2,984,891</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property and Other Local Taxes	\$2,080,772	\$307,684		\$2,388,456
Intergovernmental	2,809,017	18,925	\$ 326,313	3,154,255
Interest	8,818	13,339	1,959	24,116
Tuition and Fees	64,932		25,976	90,908
Rent	306			306
Extracurricular Activities			49,096	49,096
Gifts and Donations	8,958			8,958
Customer Sales and Services			129,300	129,300
Revenue in Lieu of Taxes	618,396			618,396
Miscellaneous	38,562		9,708	48,270
Total Revenues	<u>5,629,761</u>	<u>339,948</u>	<u>542,352</u>	<u>6,512,061</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,587,958		91,390	2,679,348
Special	534,810		104,573	639,383
Vocational	120,051			120,051
Other	469,915			469,915
Support Services:				
Pupils	157,679		3,690	161,369
Instructional Staff	238,498		29,950	268,448
Board of Education	22,297			22,297
Administration	442,265		2,683	444,948
Fiscal	185,834	7,516	896	194,246
Operation and Maintenance of Plant	384,373		2,185	386,558
Pupil Transportation	376,515			376,515
Central	237,251		6,000	243,251
Operation of Non-Instructional Services	5,049		217,176	222,225
Extracurricular Activities	144,183		49,030	193,213
Miscellaneous			18,097	18,097
Debt Service:				
Principal		120,000		120,000
Interest		109,495		109,495
Total Expenditures	<u>5,906,678</u>	<u>237,011</u>	<u>525,670</u>	<u>6,669,359</u>
Excess of Revenues Over (Under) Expenditures	<u>(276,917)</u>	<u>102,937</u>	<u>16,682</u>	<u>(157,298)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	23,855		20,676	44,531
Proceeds from Sale of Fixed Assets	258			258
Refunding Bonds Issued		2,490,000		2,490,000
Transfers Out	(44,531)			(44,531)
Payment to Bond Escrow Agent		(2,490,000)		(2,490,000)
Total Other Financing Sources and Uses	<u>(20,418)</u>		<u>20,676</u>	<u>258</u>
Net Change in Fund Balances	<u>(297,335)</u>	<u>102,937</u>	<u>37,358</u>	<u>(157,040)</u>
Fund Balance at Beginning of Year	884,207	623,823	64,576	1,572,606
Fund Balance at End of Year	<u>\$586,872</u>	<u>\$726,760</u>	<u>\$101,934</u>	<u>\$1,415,566</u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds (\$157,040)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	42,241	
Depreciation	<u>(232,713)</u>	
		(190,472)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(8,302)
-------------------------------------------	--	---------

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	47,423	
Delinquent Property Taxes	<u>(12,982)</u>	
		34,441

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

120,000

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(12,865)	
Compensated Absences Payable	<u>(43,521)</u>	
		<u>(56,386)</u>

Change in Net Assets of Governmental Activities		<u><u>(\$257,759)</u></u>
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See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
REVENUES:				
Property and Other Local Taxes	\$ 1,916,744	\$ 1,916,744	\$ 2,071,556	\$ 154,812
Intergovernmental	2,545,088	2,731,254	2,809,017	77,763
Interest	8,250	8,250	8,818	568
Tuition and Fees	4,900	4,900	64,932	60,032
Rent	500	500	306	(194)
Gifts and Donations	503,200	503,200	627,354	124,154
Miscellaneous	4,111	4,111	391	(3,720)
Total Revenues	<u>4,982,793</u>	<u>5,168,959</u>	<u>5,582,374</u>	<u>413,415</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,667,644	2,667,644	2,678,050	(10,406)
Special	403,538	403,538	522,877	(119,339)
Vocational	116,846	116,846	122,822	(5,976)
Other	343,531	343,531	469,555	(126,024)
Support Services:				
Pupils	167,697	167,697	163,934	3,763
Instructional Staff	242,587	242,587	250,185	(7,598)
Board of Education	17,346	17,346	14,173	3,173
Administration	454,360	454,360	447,608	6,752
Fiscal	189,364	189,364	199,341	(9,977)
Operation and Maintenance of Plant	435,873	435,873	420,525	15,348
Pupil Transportation	396,861	396,861	374,386	22,475
Central	206,985	206,985	235,664	(28,679)
Operation of Non-Instructional Services:				
Extracurricular Activities	10,716	10,716	9,095	1,621
Total Expenditures	<u>5,800,234</u>	<u>5,800,234</u>	<u>6,048,634</u>	<u>(248,400)</u>
Excess of Revenues Over (Under) Expenditures	<u>(817,441)</u>	<u>(631,275)</u>	<u>(466,260)</u>	<u>165,015</u>
Other Financing Sources and Uses:				
Transfers In		21,094	23,854	2,760
Proceeds from Sale of Fixed Assets	128	128	258	130
Refund of Prior Year Expenditures	38,000	38,000	54,530	16,530
Transfers Out	(18,500)	(18,500)	(44,531)	(26,031)
Refund of Prior Year Receipts	(500)	(500)		500
Advances Out			(5,676)	(5,676)
Total Other Financing Sources and Uses	<u>19,128</u>	<u>40,222</u>	<u>28,435</u>	<u>(11,787)</u>
Net Change in Fund Balances	<u>(798,313)</u>	<u>(591,053)</u>	<u>(437,825)</u>	<u>153,228</u>
Fund Balance at Beginning of Year	1,205,432	1,205,432	1,205,433	
Prior Year Encumbrances Appropriated	81,488	81,488	81,488	
Fund Balance at End of Year	<u>\$488,607</u>	<u>\$695,867</u>	<u>\$849,096</u>	<u>\$153,228</u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$54,176
Total Assets	<u>54,176</u>
Liabilities	
Current Liabilities:	
Undistributed Monies	54,176
Total Liabilities	<u><u>54,176</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

North Central Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's one instructional/support facilities staffed by 37 non-certified and 59 certified full-time teaching personnel who provide services to 686 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northern Buckeye Education Council's Employee Insurance Benefits Program, Northwest Ohio Educational Research Council, Inc., and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Bond Retirement Fund are the District's major governmental funds:

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of agency funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Districts agency funds account for various student managed activities.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the fund, function, and object level of expenditures. Any budgetary modifications at this level may only be made by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio and certificate of deposits. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposit, are valued at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$8,818, of which none is attributable to other funds.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consisted of expendable supplies held for consumption. Donated food and purchased food are expensed when used. The cost of inventory items is recorded as an expenditure when purchased.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks and instructional materials.

I. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District changed its capitalization threshold from five hundred to one thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignation and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Net Assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants are restricted to expenditures for specific purposes.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory, property taxes, and textbooks and instructional materials.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables."

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

P. Interfund Transactions

Transfers between governmental activities on the government wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE –
(Continued)**

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement 37 and 38.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003. For fiscal year 2004, the District has increased the threshold for capitalization of capital assets from \$500 to \$1,000. See Note 8.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE –
(Continued)**

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$875,921	\$623,823	\$85,388	\$1,585,132
GASB Statement 34 Adjustment				
Change in Fund Structure - Enterprise			(29,524)	(29,524)
Interpretation 6 Adjustments:				
Compensated Absences Payable	8,286		8,712	16,998
Adjusted Fund Balance	<u>\$884,207</u>	<u>\$623,823</u>	<u>\$64,576</u>	1,572,606
GASB 34 Adjustments:				
Deferred Revenue				78,873
Capital Assets				4,622,695
Long-Term Liabilities				<u>(3,071,524)</u>
Governmental Activities Net Assets at June 30, 2003				<u><u>\$3,242,650</u></u>

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance Major Governmental Fund	General Fund
GAAP Basis	(\$297,335)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	147,559
Accrued FY 2004, Not Yet Received in Cash	(194,946)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(570,073)
Accrued FY 2004, Not Yet Paid in Cash	594,098
Advances Net	(5,676)
Encumbrances Outstanding at Year End (Budget Basis)	(111,451)
Budget Basis	(\$437,824)

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time, and
8. Under limited circumstances corporate debt interest rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At fiscal year end, the District had \$40 in undeposited cash on hand, which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$957,187 and the bank balance was \$995,189. Of the bank balance:

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

1. \$100,000 was covered by Federal Depository Insurance; and
2. \$895,189 was collateralized by securities specifically pledged by the financial institution in the name of the District.

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year-end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004, were as follows:

	Carrying Value	Fair Value
STAR Ohio	\$921,843	\$921,843

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$1,879,070	
Cash on Hand	(40)	
STAR Ohio	(921,843)	\$921,843
GASB Statement No. 3	\$957,187	\$921,843

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

6. PROPERTY TAXES – (Continued)

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Williams County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$140,416 in the General Fund, and \$9,618 in the Debt Service Fund. The amount available as an advance at June 30, 2003, was \$131,200 in the General Fund, and \$13,120 in the Debt Service Fund.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

6. PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$52,949,840	70%	\$54,666,920	69%
Industrial/Commercial	8,518,870	11%	8,944,000	11%
Public Utility	2,663,920	4%	2,227,870	3%
Tangible Personal	11,734,660	15%	12,935,350	17%
Total Assessed Value	<u>\$75,867,290</u>	<u>100%</u>	<u>\$78,774,140</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$62.00		\$60.20	

7. RECEIVABLES

Receivables at June 30, 2004, consisted of property tax, accounts (rent and student fees), intergovernmental, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Title VI-B	\$7,786
Title I	24,323
Title VI	1,875
Drug Free Schools	14
Title II-A	9,711
Title II-D Technology	3,714
Summer Intervention	5,676
Total Intergovernmental Receivables	<u>\$53,099</u>

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03 as Restated	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$607,317			\$607,317
Total Nondepreciable Capital Assets	<u>607,317</u>			<u>607,317</u>
Depreciable Capital Assets				
Land Improvements	30,538			30,538
Buildings and Building Improvements	4,647,567			4,647,567
Furniture, Fixtures, and Equipment	984,714	31,971	21,224	995,461
Vehicles	454,959			454,959
Infrastructure	63,583			63,583
Books	655,326	10,270		665,596
Total Depreciable Capital Assets	<u>6,836,687</u>	<u>42,241</u>	<u>21,224</u>	<u>6,857,704</u>
Less Accumulated Depreciation				
Land Improvements	30,200	101		30,301
Buildings and Building Improvements	1,598,736	157,929		1,756,665
Furniture, Fixtures, and Equipment	564,929	54,394	12,922	606,401
Vehicles	204,263	14,484		218,747
Infrastructure	15,101	3,179		18,280
Books	368,080	2,626		370,706
Total Accumulated Depreciation	<u>2,781,309</u>	<u>232,713</u>	<u>12,922</u>	<u>3,001,100</u>
Depreciable Capital Assets, Net	<u>4,055,378</u>	<u>(190,472)</u>	<u>8,302</u>	<u>3,856,604</u>
Governmental Activities Capital Assets, Net	<u>\$4,662,695</u>	<u>(\$190,472)</u>	<u>\$8,302</u>	<u>\$4,463,921</u>

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

8. CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$38,094
Special	137
Vocational	145
Support Services:	
Pupil	336
Instructional Staff	1,708
Administration	512
Fiscal	392
Operation and Maintenance of Plant	5,501
Pupil Transportation	15,146
Non-Instructional Services	2,187
Extracurricular	8,161
Capital Outlay	160,394
Total Depreciation Expense	<u>\$232,713</u>

The District restated Capital Assets at the beginning of the year as follows:

Balance at June 30, 2003	\$7,625,792
Restatement	<u>(181,788)</u>
Balance, Restated	<u>\$7,444,004</u>

9. RESTRICTED ASSETS

The following amounts, which are reflected on the balance sheet, are restricted for various purposes.

	General Fund
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$77,987</u>

10. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 100 percent insured.

During fiscal year 2004, North Central Local School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

10. RISK MANAGEMENT – (Continued)

The District pays this annual premium to the OSP. The District contracts for education general liability, employee benefits liability, employer's liability, stop gap, errors and omissions liability, and employment practices with OSP.

Insurance coverage provided includes the following:

Education General Liability:	
Each Occurrence	\$ 1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability (\$2,500 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	2,000,000
Employment Practices (\$2,500 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the last fiscal year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool (Note 17) consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

10. RISK MANAGEMENT – (Continued)

participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Suite 100, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate, which is currently 14 percent of annual covered payroll. The contribution rates are not determined actuarially, but are established by SERS Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$70,815, \$40,221, and \$38,275, respectively, 46 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contributions for fiscal year 2004 are \$58,788.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

11. DEFINED PENSION BENEFIT PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$384,055, \$259,239, and \$239,176, respectively, 84 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$66,700.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

For the District, the amount to fund health care benefits, including surcharge, equaled \$49,650 during the 2004 fiscal year.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

13. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreement and State laws. Employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment. The Superintendent earns 30 days per year of which 10 additional days must be used within the current contract year. Employees who are not on an eleven or twelve month contract do not earn vacation time. Employees earn sick leave at the rate of one and one-fourth days for per month. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 230 days.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government -Wide Financial Statements:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/04</u>	<u>Due Within One Year</u>
General Obligation Refunding		\$2,490,000		\$2,490,000	\$200,000
General Obligation Serial Bonds	\$250,000		\$250,000		
General Obligation Term Bonds	2,360,000		2,360,000		
Total General Obligation bonds	<u>2,610,000</u>	<u>2,490,000</u>	<u>2,610,000</u>	<u>2,490,000</u>	<u>200,000</u>
Compensated Absences	423,799	467,320	423,799	467,320	
Intergovernmental Payables	37,725		37,725		
Total	<u>\$3,071,524</u>	<u>\$2,957,320</u>	<u>\$3,071,524</u>	<u>\$2,957,320</u>	<u>\$200,000</u>

Debt outstanding at June 2004 consisted of General Obligation School Improvement Refunding Bonds totaling \$2,490,000. The bonds were issued in February 2004 and will mature in December 2015. The interest rate at June 30, 2004, was 1.5 percent to 5 percent for the general obligation bonds.

On February 27, 2004, the District issued general obligation bonds (Series 2003 School Improvement Refunding Bonds) to currently refund the callable portion of the School Improvement General Obligation Bonds (principal \$2,490,000; interest rate 1.5 to 5 percent). The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

The refunding issue is comprised of current interest bonds, par value \$2,490,000. The annual interest rate on the current interest bonds is variable, not to exceed 5 percent.

This current refunding was undertaken to reduce total debt service payments over the next 12 years by \$513,325 and resulted in an economic gain of \$406,068.

The refunding bonds outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current tax levy.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

Total expenditures for interest for the above debt for the period ended June 30, 2004, was \$109,495

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$200,000	\$81,000	\$281,000
2006	200,000	78,000	278,000
2007	200,000	74,500	274,500
2008	200,000	70,500	270,500
2009	200,000	66,000	266,000
2010-2014	1,000,000	232,500	1,232,500
2015-2016	490,000	25,500	515,500
Total	<u>\$2,490,000</u>	<u>\$628,000</u>	<u>\$3,118,000</u>

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2003	\$44,300	
Current Year Set-aside Requirement	93,876	\$93,876
Qualifying Disbursements	<u>(60,189)</u>	<u>(350,992)</u>
Total	<u>\$77,987</u>	<u>(\$257,116)</u>
Cash Balance Carried Forward to FY 2005	<u>\$77,987</u>	

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

The NWOCA Assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the four counties in which the member school districts are located and the representative from the member school district serving as fiscal agent for NWOCA. The degree of control exercised by any participating school district is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Centers - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Career Center possesses its own budgeting and taxing authority. No payments were made by the District to the Four County Career Center. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

17. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to Northern Buckeye Education Council for insurance benefits were \$601,087. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During fiscal year 2004 the District paid an enrollment fee of \$610 to the WCGRP to cover the costs of administering the program.

C. Ohio School Plan

The District belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financials statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

17. GROUP PURCHASING POOLS – (Continued)

	<u>2004</u>	<u>2003</u>
Assets	\$850,065	\$260,932
Liabilities	<u>\$509,558</u>	<u>\$172,784</u>
Members' Equity	<u>\$340,507</u>	<u>\$88,148</u>

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, www.ohioschoolplan.org.

18. SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

19. INTERFUND TRANSFERS

On the fund financial statements, the General Fund had interfund receivables of \$25,476. These interfund loans were made to provide operating capital to non-major funds.

20. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

21. COMPLIANCE

- Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in fourteen of the District's funds.
- Contrary to Ohio law, the District posted money due to the Debt Service Fund to the General Fund.
- Contrary to Ohio law, the District did not obtain an official's surety bond for the Treasurer.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

North Central Local School District
Williams County
400 East Baubice Street
Pioneer, Ohio 43554-9637

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Local School District, Williams County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 17, 2006, in which we noted the District adopted Government Account Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its capitalization level. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-005 and 2004-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-006 listed above to be a material weakness. In a separate letter to the District's management dated January 17, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004. In a separate letter to the District's management dated January 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 17, 2006

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2004-001

Finding Repaid Under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. As stated in McClure, “[g]enerally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants” . Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

Typically, the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary and unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/ Proper “Public Purpose” states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

In 1991, the Yeager Family made a donation to North Central Local School District to start a scholarship fund for District students. In that first year, \$12,914.25 was donated. These donations were credited to the Scholarship Fund. After 1991, several smaller donations were made by the Yeager Family to the Scholarship Fund. From 1993 through 2004, scholarships were awarded to students in the amount of \$1,000 or \$2,000 per year. In 2004, Mr. Pete Yeager requested the balance of the Scholarship Fund be returned to him. On June 22, 2004, Stephen Lewis, Superintendent approved a payment to Mr. Yeager and Sandra Lashaway, Treasurer issued a check for \$14,095.13 to Mr. Yeager.

There were no provisions or stipulations, when the donations were received, stating under what conditions any refunds were permissible. Further, there was no duly enacted resolution by the Board of Education which demonstrates what public purpose such an expenditure serves.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985).

In accordance with these facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public money illegally expended, is hereby issued against Pete Yeager, Sandra Lashaway, Treasurer, and Stephen Lewis, Superintendent and his bonding companies, Ohio Casualty Group and Auto-Owners Insurance, jointly and severally, in favor of the Expendable Trust Scholarship Fund in the total amount of \$14,095.13.

The finding for recovery in the amount of \$14,095.13 was repaid on November 29, 2005, into the North Central Local School District Scholarship Fund on receipt number 260370.

FINDING NUMBER 2004-002

Ohio Revised Code Section 3313.25 states before entering upon the duties of his office, the treasurer of each board of education shall execute a bond, in an amount and with surety to be approved by the board, payable to the state, conditioned for the faithful performance of all the official duties required of him. Such bond must be deposited with the president of the board, and a copy thereof, certified by him, shall be filed with the county auditor.

The Treasurer, Sandra Lashaway did not have a bond during fiscal year 2004. The District obtained an official's surety bond for Sandra Lashaway on December 17, 2005.

FINDING NUMBER 2004-003

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

The following funds were found to have expenditures in excess of appropriations at June 30, 2004:

Fund	Total Appropriations	Total Disbursements	Variance
General Fund	\$ 5,819,236	\$ 6,093,165	\$ (273,929)
Special Revenue Funds:			
Food Service Fund	189,861	195,655	(5,794)
Scholarship Fund	9,501	23,097	(13,596)
North Central Good Stuff Fund	2,000	4,031	(2,031)
Public School Support Fund	1,533	2,888	(1,355)
OneNet Network Connectivity Fund	0	6,000	(6,000)
Ohio Reads Grant Fund	8,135	14,716	(6,581)
Summer Intervention Grant Fund	0	14,753	(14,753)
Safe Schools Help Line Fund	740	3,324	(2,584)
Title VI-B Flow Through Fund	10,576	84,355	(73,779)
Title IV Fund	7	3,643	(3,636)
Title VIR FY 2002 Fund	1,050	22,577	(21,527)
Debt Service Fund:			
Bond Retirement Fund	289,430	2,727,011	(2,437,581)
Capital Project Fund:			
School Net Fund	0	18,205	(18,205)

In addition, 10% of the disbursement transactions tested during fiscal year 2005 were not within appropriations at the legal level of control.

Allowing expenditures to exceed appropriations could result in deficit spending. The Board of Education should regularly monitor budgets to ensure there are sufficient appropriations to fund anticipated expenditures.

FINDING NUMBER 2004-004

Ohio Revised Code § 5705.10 provides that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. Furthermore, this code section requires that all revenue derived from a special levy be credited to a special fund for the purpose for which the levy was made. All revenue derived from a source other than general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

- In 2004, \$4,520 of property tax revenue due to the Debt Service Fund was credited to the General Fund.
- In 2004, \$13,502 of homestead and rollback revenues due to the Debt Service Fund was credited to the General Fund.

Posting of cash assets to improper funds could cause management to draw incorrect conclusions regarding its fiscal position. We recommend the Treasurer and the Board review financial records to ensure that amounts are reflected in the appropriate funds and that there are sufficient funds to pay obligations.

An audit adjustment was made to the District's financial statements to properly record property tax and homestead and rollback revenues. The District has posted these adjusted differences to its books of account.

FINDING NUMBER 2004-005

Payroll Clearing Account Reconciliations

Each month the payroll clearing account bank balance should be reconciled to outstanding checks and undistributed withholding payments. This procedure is an important method of detecting errors in the payroll postings and bank account records. After this procedure is completed, any errors found should be immediately corrected.

The payroll account was not reconciled for the period February 2004 through April 2004. In addition, there were no outstanding check registers to support the May and June 2004 payroll account reconciliations. The Treasurer did not print the payroll check registers on a monthly basis and was unable to recover these reports for the audit.

We recommend that the Treasurer reconcile the payroll clearing account each month. The Treasurer should initial and date the reconciliations and maintain the reconciliations and a list of outstanding checks each month. Periodically, the audit committee should review the payroll reconciliations for accuracy.

FINDING NUMBER 2004-006

Food Service Revenue

The Cafeteria Manager receives food service monies, reconciles the cash register tape to the cash collected, and deposits the collections with the Treasurer. Combining such incompatible responsibilities without compensating monitoring controls increases the risk that misstatements caused by error or fraud may occur and not be detected by management in a timely manner. This could result in errors or fraud occurring without detection by management.

To improve controls, we recommend the District separate the handling of food service cash collections from the record keeping associated with those revenues. If such a segregation of duties is not economically feasible, management should increase day to day monitoring of the collection process. This might include installation of video cameras or random onsite observations by management of revenue received. Scrutiny of records could include comparisons of current daily collections to those of the prior year or comparisons of actual revenues to estimates.

**NORTH CENTRAL LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC 5705.41(D), expenditures not properly certified.	No	Partially Corrected – Reported in Management Letter
2003-002	ORC § 5705.41(B), expenditures exceeding appropriations.	No	Not Corrected – Reissued as Finding 2004 -003



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NORTH CENTRAL LOCAL SCHOOL DISTRICT

WILLIAMS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**