



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

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INDEPENDENT ACCOUNTANTS REPORT

Hardin Northern Local School District
Hardin County
11589 State Route 81
Dola, Ohio 45835

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Hardin Northern Local School District, Hardin County, (the "School District"), as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Hardin Northern Local School District, Hardin County, as of June 30, 2002 and 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 4 to the 2001 financial statements, during the year ended June 30, 2001, the School District adopted Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Non exchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2002, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

December 17, 2002

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$648,335	\$154,710	\$120,972
Cash and Cash Equivalents with Fiscal Agent		3,465	
Receivables :			
Property Taxes	1,445,298		81,651
Income Taxes	154,029		
Accounts		336	
Intergovernmental		17,783	
Accrued Interest		38	
Interfund	45,000		
Due from Other Funds	4,707		
Prepaid items	39,337		
Inventory Held for Resale			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	281,258		
Fixed Assets(Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	<u>2,617,964</u>	<u>176,332</u>	<u>202,623</u>
 Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts payable	54,323	9,543	
Accrued Wages payable	216,820	9,318	
Compensated Absences Payable	6,547		
Interfund Payable			
Due to Other Funds		4,707	
Intergovernmental Payable	23,297	1,821	
Deferred Revenue	1,235,344	3,426	64,665
Due to Students			
Capital Lease Payable			
Accrued Interest Payable			622
Notes Payable			125,000
Total Liabilities	<u>1,536,331</u>	<u>28,815</u>	<u>190,287</u>
 Fund Equity & Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balance:			
Reserved for Prepaid items			
Reserved Bureau of Workers Compensation Refunds	17,316		
Reserved for Textbooks	176,315		
Reserved for Capital Improvements	87,627		
Reserved for Taxes Unavailable for Appropriation	209,954		16,986
Unreserved:			
Undesignated	590,421	147,517	(5,367)
Total Fund Equity and Other Credits	<u>1,081,633</u>	<u>147,517</u>	<u>12,336</u>
 Total Liabilities, Fund Equity and Other Credits	<u>\$2,617,964</u>	<u>\$176,332</u>	<u>\$202,623</u>

The notes to the general purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$34,067	\$26,664			\$984,748
				3,465
				1,526,949
				154,029
	1,235			1,571
				17,783
				38
				45,000
				4,707
899				40,236
2,038				2,038
				281,258
20,959		3,630,712		3,651,671
			385,168	385,168
<u>57,963</u>	<u>27,899</u>	<u>3,630,712</u>	<u>385,168</u>	<u>7,098,661</u>
	1,232			65,098
7,565				233,703
7,879			298,663	313,089
45,000				14,854,212
				4,707
7,484			13,429	46,031
1,561				1,304,996
	20,888			20,888
			73,076	73,076
				622
				125,000
<u>69,489</u>	<u>22,120</u>		<u>385,168</u>	<u>2,232,210</u>
		3,630,712		3,630,712
9,095				9,095
(20,621)				(20,621)
				717
				17,316
				176,315
				87,627
				226,940
	5,779			738,350
<u>(11,526)</u>	<u>5,779</u>	<u>3,630,712</u>		<u>4,866,451</u>
<u>\$57,963</u>	<u>\$27,899</u>	<u>\$3,630,712</u>	<u>\$385,168</u>	<u>\$7,098,661</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental fund Types</u>				<u>Fiduciary Fund</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Property Taxes	\$1,044,058			\$80,919		\$1,124,977
Income Taxes	400,043					400,043
Intergovernmental	2,190,266	171,507		20,093		2,381,866
Interest	30,202	150			79	30,431
Tuition	12,290					12,290
Extracurricular Activities		82,742				82,742
Classroom Materials and Fees	16,486					16,486
Gifts and Donation					9,727	9,727
Miscellaneous	9,618	6,785				16,403
Total Revenues	<u>3,702,963</u>	<u>261,184</u>		<u>101,012</u>	<u>9,806</u>	<u>4,074,965</u>
Expenditures						
Current:						
Instruction:						
Regular	1,348,873	30,235		3,490	5,750	1,388,348
Special	147,500	107,491				254,991
Vocational	183,822	1,485		1,608		186,915
Support Services:						
Pupils	111,562	2,000				113,562
Instructional Staff	86,244	16,500				102,744
Board of Education	20,505					20,505
Administration	478,352	12,195			450	490,997
Fiscal	175,902	1,719		2,000		179,621
Operation and Maintenance of Plant	249,062			3,383		252,445
Pupil Transportation	177,194					177,194
Central	101	1,213				1,314
Extracurricular Activities	87,171	80,085			50	167,306
Capital Outlay				23,026		23,026
Debt Service						
Principal Retirement	12,732					12,732
Interest & Fiscal Charges	5,492			7,192		12,684
Total Expenditures	<u>3,084,512</u>	<u>252,923</u>		<u>40,699</u>	<u>6,250</u>	<u>3,384,384</u>
Excess of Revenues Over Expenditures	<u>618,451</u>	<u>8,261</u>		<u>60,313</u>	<u>3,556</u>	<u>690,581</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Fixed Assets	245					245
Operating Transfers In			32,119	32,192		64,311
Operating Transfers Out			(32,192)	(32,119)		(64,311)
Total Other Financing Sources (Uses)	<u>245</u>		<u>(73)</u>	<u>73</u>		<u>245</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>618,696</u>	<u>8,261</u>	<u>(73)</u>	<u>60,386</u>	<u>3,556</u>	<u>690,826</u>
Fund Balances (Deficit) at Beginning at Year	462,937	139,256	73	(48,050)	2,223	556,439
Fund Balances at End of Year	<u>\$1,081,633</u>	<u>\$147,517</u>	<u>\$0</u>	<u>\$12,336</u>	<u>\$5,779</u>	<u>\$1,247,265</u>

The notes to the general purpose financial statements are an integral part of this statement.

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Taxes	\$1,333,096	\$1,299,664	(\$33,432)			
Intergovernmental	2,173,206	2,186,286	13,080	146,835	132,675	(14,160)
Interest	47,209	31,708	(15,501)	241	280	39
Tuition and Fees	27,703	28,778	1,075			
Extracurricular Activities				78,258	82,742	4,484
Miscellaneous	4,889	4,695	(194)	6,248	6,801	553
Total Revenues	<u>3,586,103</u>	<u>3,551,131</u>	<u>(34,972)</u>	<u>231,582</u>	<u>222,498</u>	<u>(9,084)</u>
Expenditures						
Current:						
Instruction:						
Regular	1,510,600	1,406,743	103,857	52,633	24,244	28,389
Special	162,995	151,539	11,456	89,128	82,001	7,127
Vocational	204,847	189,776	15,071	3,436	2,750	686
Support Services:						
Pupils	127,620	118,848	8,772			
Instructional Staff	111,040	96,875	14,165	25,855	17,510	8,345
Board of Education	30,975	23,398	7,577			
Administration	544,232	487,777	56,455	51,957	15,264	36,693
Fiscal	211,034	188,128	22,906	1,710	1,710	
Operation and Maintenance of Plant	384,561	271,332	113,229	499		499
Pupil Transportation	201,668	189,364	12,304			
Central	2,338	101	2,237	1,183	1,183	
Extracurricular Activities	96,900	87,893	9,007	83,863	77,723	6,140
Capital Outlay						
Debt Service						
Principal Retirement						
Interest & Fiscal Charges						
Total Expenditures	<u>3,588,810</u>	<u>3,211,774</u>	<u>377,036</u>	<u>310,264</u>	<u>222,385</u>	<u>87,879</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,707)</u>	<u>339,357</u>	<u>342,064</u>	<u>(78,682)</u>	<u>113</u>	<u>78,795</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Fixed Assets	245	245				
Refund of Prior Year Expenditures	7,517	7,517				
Operating Transfers In						
Operating Transfers Out						
Advances In						
Advances Out	(15,000)	(15,000)				
Total Other Financing Sources (Uses)	<u>(7,238)</u>	<u>(7,238)</u>				
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(9,945)</u>	<u>332,119</u>	<u>342,064</u>	<u>(78,682)</u>	<u>113</u>	<u>(78,795)</u>
Fund Balances at Beginning of Year	497,336	497,336		139,762	139,762	
Prior Year Encumbrances Appropriated	56,954	56,954		8,427	8,427	
Fund Balances (Deficit) at End of Year	<u>\$544,345</u>	<u>\$886,409</u>	<u>\$342,064</u>	<u>\$69,507</u>	<u>\$148,302</u>	<u>\$78,795</u>

The notes to the general purpose financial statements are an integral part of this statement.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$72,388	\$70,759	(\$1,629)			
			24,006	24,073	67	56	56	
						10,676	10,726	50
			96,394	94,832	(1,562)	10,732	10,782	50
			18,310	3,490	14,820	7,400	5,750	1,650
			1,608	1,608				
						450	450	
			2,000	2,000				
			41,897	4,100	37,797			
						50	50	
			25,059	25,059				
25,000	25,000							
9,800	7,192	2,608						
34,800	32,192	2,608	88,874	36,257	52,617	7,900	6,250	1,650
(34,800)	(32,192)	(2,608)	7,520	58,575	51,055	2,832	4,532	1,700
35,119	32,119	(3,000)	(32,119)	(32,119)				
35,119	32,119	(3,000)	(32,119)	(32,119)				
319	(73)	(392)	(24,599)	26,456	51,055	2,832	4,532	1,700
73	73		90,063	90,063		1,185	1,185	
			3,736	3,736				
\$392	\$0	(\$392)	\$69,200	\$120,255	\$51,055	\$4,017	\$5,717	\$1,700

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002**

	Enterprise
Operating Revenues:	
Sales	\$107,401
Classroom Fee	113
Total Operating Revenues	107,514
 Expenses:	
Salaries & Wages	66,158
Fringe Benefits	10,772
Purchased Services	4,099
Materials and Supplies	1,083
Cost of Sales	79,220
Depreciation	1,612
Other Operating Expenses	167
Total Operating Expenses	163,111
 Operating (Loss)	(55,597)
 Nonoperating Revenues	
Federal Donated Commodities	20,738
Operating Grants	36,201
Total Nonoperating Revenues	56,939
 Net Income	1,342
 Retained Earnings at Beginning of Year	(21,963)
 Retained Earnings at End of Year	(20,621)
 Contributed Capital	9,095
 Fund Equity at End of Year	(\$11,526)

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002**

Increase in Cash and Cash Equivalents

	Enterprise
Cash Flows from Operating Activities :	
Cash Received from Food Services	\$107,401
Cash Payments from Other Operating Revenue	150
Cash Payments to Employees for Services	(57,550)
Cash Payments for Employee Benefits	(22,739)
Cash Payments to Suppliers for Goods and Services	(63,226)
Net cash provided (used) by operating activities	(35,964)
 Cash Flows from Noncapital Financing Activities :	
Cash Received from Operating Grants	36,201
Cash Received from Advances In	15,000
Net cash provided (used) by operating activities	51,201
Net increase in cash and cash equivalents :	15,237
Cash and cash equivalents at beginning of year	18,830
 Cash and cash equivalents at end of year	34,067
Operating (loss)	(55,597)
 Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Depreciation	1,612
Commodities expense related to noncash grant	20,738
Changes in assets and liabilities:	
Accounts receivables	37
Inventory Held for Resale	(1,037)
Material and Supplies inventory	81
Prepaid items	(899)
Accrued wages and benefits	(5,193)
Compensated Absences Payable	4,497
Intergovernmental Payable	(1,764)
Deferred Revenue	1,561
Net cash (used) by operating activities	(\$35,964)

The notes to the general purpose financial statements are an integral part of this statement.

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Hardin Northern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District is the 587th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty classified employees, forty-five certified teaching personnel, and three administrative employees who provide services to five hundred fifty-three students and other community members. The School District currently operates three instructional/support buildings.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Northern Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Hardin Northern Local School District.

The School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the Western Ohio Computer Organization, Apollo Career Center, West Central Regional Professional Development Center, Hardin County Schools Consortium Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Ohio School Boards Association Workers' Compensation Group Rating Plan, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Hardin Northern Public Library. These organizations are discussed in Notes 20, 21 and 22 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the enterprise funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include an expendable trust fund and an agency fund. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, except those accounted for in proprietary funds or trust funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District, except those accounted for in proprietary funds or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust and agency funds. The full accrual basis of accounting is followed for the enterprise funds.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and donations.

Deferred revenues arise 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, 2002, but which were levied to finance fiscal year 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, revenues are recognized when received and 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Title VI-B special revenue fund is a flow through grant in which the Hardin County Educational Service Center is the primary recipient. Budgetary information for this fund is not included within the School District's reporting entity for which the "appropriated budget" is adopted.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Hardin County Budget Commission for rate determination.

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were adopted by the Board.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds and funds held by the Hardin County Educational Service Center, consistent with statutory provisions.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types and the expendable trust fund and reported in the notes to the financial statements for the enterprise funds.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2002, investments were limited to nonnegotiable certificates of deposit, savings accounts, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. 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, 2002.

The School District has allocated interest to various funds during fiscal year 2002. Interest revenue credited to the General Fund during the fiscal year 2002 was \$30,202, which included \$7,107 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments, with an initial maturity of more than three months and were not purchased from the pool, are reported as investments.

E. Inventory

Inventory in the enterprise funds is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory in the enterprise funds consists of donated food, purchased food, and school supplies held for resale and is expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials; the acquisition and construction of capital improvements; and Bureau of Worker's Compensation Refunds whose use is restricted by S.B. 345.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise funds are capitalized in the respective fund. All fixed 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 value as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Improvements are capitalized. Improvements to the enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables." Due to/from other funds represent obligations incurred when one fund pays the expenses of another fund and is entitled to reimbursement.

Advances in and out on the budgetary statements do not balance due to budget versus actual statements not being presented for the Proprietary Fund Type.

J. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 School 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 School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after eight years of service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources. Capital leases are reported as a liability in the general long-term obligations account group until due.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term debt and other obligations financed by the enterprise funds are reported as liabilities in the appropriate fund.

Under Ohio law, a debt service fund may be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires reporting the liability in the fund that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year end.

M. Fund Balance Reserves

The School 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 property taxes, textbooks, capital improvements, Bureau of Worker's Compensation Refunds, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for Bureau of Worker's Compensation Refunds represent money whose use is restricted by S.B. 345.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY

At June 30, 2002, the Title I special revenue fund had a deficit fund balance of \$4,460. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Food Service Enterprise Fund had deficit retained earnings of \$13,952 at June 30, 2002, as a result of accumulated operating losses from prior years.

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types and Similar Fiduciary Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and the expendable trust fund.
4. Proceeds from and principal payments on tax anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District repays tax anticipation debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.
6. Although not part of the appropriated budget, the Title VI-B special revenue fund is included as part of the reporting entity when preparing financial statements that conform with GAAP.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund
Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$618,696	\$8,261	(\$73)	\$60,386	\$3,556
<u>Increase (Decrease) Due To:</u>					
Revenue Accruals:					
Accrued FY 2001, Received in Cash FY 2002	224,375	2,226		10,806	1,000
Accrued FY 2002, Not Yet Received in Cash	(368,690)	(15,919)		(16,986)	(61)
Expenditure Accruals:					
Accrued FY 2001, Paid in Cash FY 2002	(382,177)	(24,260)		(2,034)	
Accrued FY 2002, Not Yet Paid in Cash	252,636	24,385			500
Cash Adjustments FY 01	19,183	13,581			37
Change in Prepaid Items	26,280				
Note Principal Retirement			(25,000)		
Note Interest			(7,192)	7,192	
Advances Out	(15,000)				
Reallocation of Debt Activity			32,192	(32,192)	
Excess of Revenues Over Expenditures for Non-Budgeted Funds		(1,753)			
Encumbrances Outstanding at Year End (Budget Basis)	(43,184)	(6,408)		(717)	(500)
Budget Basis	\$332,119	\$ 113	\$ (73)	\$26,456	\$4,532

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim monies. 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 School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 bills, bonds, notes, 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;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase 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 School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the School District had \$3,565 in cash and cash equivalents held by the Hardin County Educational Service Center, which are included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At fiscal year end, the carrying amount of the School District's deposits was \$89,092 and the bank balance was \$90,926. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School 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 School 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 School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$1,176,814.

The classification of cash and cash equivalents and investments on the combined balance sheet 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 classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,269,471	
Petty Cash	(100)	
Cash and Cash Equivalents with Educational Service Center	(3,465)	
Investments:		
STAR Ohio	(1,176,814)	1,176,814
GASB Statement No. 3	\$89,092	\$1,176,814

6. PROPERTY TAXES

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2002 represent the collection of calendar year 2001 taxes. Real property taxes received in calendar year 2002 are levied after April 1, 2001, on the assessed values as of January 1, 2001, 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 received in calendar year 2002 were levied after April 1, 2002, on the assessed values as of December 31, 2001, 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 2002 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes received in calendar year 2002 were levied after April 1, 2001, on the value as of December 31, 2001. 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 School District receives property taxes from Hardin and Hancock Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2002, are available to finance fiscal year 2002 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, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at year end. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$209,954 in the General Fund and \$16,986 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2001, was \$83,832 in the General Fund and \$6,826 in the Permanent Improvement capital projects fund.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2002 Second - Half Collections		2001 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$36,751,260	88.93%	\$36,297,810	87.49%
Public Utility	3,147,290	7.61	3,860,380	9.31
Tangible Personal	1,428,173	3.46	1,328,572	3.20
Total Assessed Value	\$41,326,723	100.00%	\$41,486,762	100.00%
Tax rate per \$1,000 of assessed valuation	\$37.35		\$37.35	

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts, intergovernmental, accrued interest, and interfund receivables. 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. Accounts receivable at June 30 were \$1,571.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Special Revenue Funds:	
Title II	\$183
Title I	13,493
Title VI	1,951
Drug Free	513
Title VI-R	<u>1,643</u>
Total Intergovernmental Receivables	<u><u>\$17,783</u></u>

9. FIXED ASSETS

A summary of the Enterprise Funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$42,818
Less Accumulated Depreciation	<u>(21,859)</u>
Net Fixed Assets	<u><u>\$20,959</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Land and Improvements	\$168,672			\$168,672
Buildings and Improvements	1,894,996	6,010		1,901,006
Vehicles	451,764			451,764
Furniture and Equipment	1,074,525	34,745		1,109,270
Total General Fixed Assets	<u><u>\$3,589,957</u></u>	<u><u>\$40,755</u></u>		<u><u>\$3,630,712</u></u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

10. INTERFUND ASSETS/LIABILITIES

At June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$45,000	
Enterprise Fund		
Food Service		45,000
Total All Funds	\$45,000	\$45,000

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the School District contracted with the Nationwide Insurance Company for the following insurance coverage.

Buildings and Contents - replacement cost (\$1,000 Deductible)	\$8,527,255
Professional Liability	
Per Occurrence	1,000,000
Aggregate	5,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate	5,000,000
Vehicle Liability	2,000,000
Uninsured Motorist	2,000,000
Umbrella Liability	
Per Occurrence	2,000,000
Aggregate	2,000,000
Public Employee Dishonesty	50,000

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

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. RISK MANAGEMENT (Continued)

C. Employee Health Benefits

The School District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The School District pays monthly premiums to the Trust for medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

12. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 4.2 percent, 4.2 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$164,267, \$164,236, and \$94,455, respectively; 76.3 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$38,912, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$21,485, \$18,087, and \$25,565, respectively; 56.8 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$32,821, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2002, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$77,811.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$37,158 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred days for classified employees and two hundred ten days for certified employees. The maximum amount of days to be paid at retirement is based upon the total years of service at the time of retirement.

B. Health Care Benefits

The School District provides medical, dental, vision, and life insurance to most employees through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

15. NOTES PAYABLE

During fiscal year 1997, the School District issued tax anticipation notes, in the amount of \$250,000, for improving the School District's buildings. The notes were issued for a ten year period at an interest rate of 5.15 percent. Principal, in the amount of \$25,000, was retired during fiscal year 2002. The principal outstanding at June 30, 2002, was \$125,000. The notes are being paid with tax levy monies which are posted to the Capital Projects Fund and transferred to the Debt Service Fund for payment.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. NOTES PAYABLE (Continued)

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2002, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2003	30,794
2004	29,506
2005	28,219
2006	26,931
2007	25,644
Total	<u>\$141,094</u>

16. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/02</u>
Compensated Absences Payable	240,702	57,961		298,663
Intergovernmental Payable	24,206	13,429	24,206	13,429
Capital Leases Payable	85,808		12,732	73,076
Total General Long-Term Obligations	<u>\$350,716</u>	<u>\$71,390</u>	<u>\$36,938</u>	<u>\$385,168</u>

Compensated absences and intergovernmental payables, representing the School District's contractually required pension contributions, will be paid from the fund from which the employee's salary is paid. Capital leases will be paid from the General Fund.

The School District's overall debt margin was \$3,594,405 with an unvoted debt margin of \$41,327 at June 30, 2002.

17. CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for buses. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets acquired by lease have been capitalized in the general fixed assets account group, in the amount of \$104,034. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 were \$12,732 in the governmental funds.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

17. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending June 30,	
2003	\$18,224
2004	18,226
2005	48,000
Total	84,450
Less Amount Representing Interest	(11,374)
Present Value of Net Minimum Lease Payments	<u>\$73,076</u>

18. SET ASIDE REQUIREMENTS

The School 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2002, only the portion of the budget stabilization from certain Bureau of Workers' Compensation refunds whose use is restricted by S.B. 345 continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and Bureau of Worker's Compensation refunds during fiscal year 2002.

	Textbooks	Capital Improvements	Bureau of Worker's Compensation Refunds
Balance June 30, 2001	\$113,791	\$16,172	\$17,316
Set aside requirements	73,653	73,653	
Qualifying Expenditures	(11,129)	(2,198)	
Balance June 30, 2002	<u>\$176,315</u>	<u>\$87,627</u>	<u>\$17,316</u>

The total reserve balance for the set asides at the end of the fiscal year was \$281,258.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

19. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$107,364	\$150	\$107,514
Operating Expenses	163,111		163,111
Depreciation Expense	1,612		1,612
Operating Income (Loss)	(55,747)	150	(55,597)
Federal Donated Commodities	20,738		20,738
Operating Grants	36,201		36,201
Net Income (Loss)	1,192	150	1,342
Net Cash Flow	15,087	150	15,237
Net Working Capital	(24,456)	150	(24,606)
Total Assets	55,537	2,426	57,963
Total Equity (Deficit)	(13,952)	2,426	(11,526)
Encumbrances Outstanding at Year End (Budget Basis)	2,470		2,470

20. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Hardin, Logan, and Shelby 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. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools districts within each county. Financial information can be obtained from the Director, 129 East Court Street, Sidney, Ohio 45365.

B. Apollo Career Center

The Apollo Career Center is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Apollo Joint Vocational School, 3325 Shawnee Road, Lima, Ohio 45806.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (the "Center") is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. Hardin County Schools Consortium Local Professional Development Committee

The Hardin County Schools Consortium Local Professional Development Committee (the "Consortium") is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from the Hardin County Educational Service Center, who serves as fiscal agent, at 1211 West Lima Street, Kenton, Ohio 43326.

E. 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 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., Box 456, Ashland, Ohio 44805.

21. INSURANCE POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

21. INSURANCE POOLS (Continued)

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Hardin County School Employees' Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust) is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 Township Road 50, Dola, Ohio 45835.

22. RELATED ORGANIZATION

The Hardin Northern Public Library is a distinct subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Hardin Northern Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kay Potter, Clerk/Treasurer, P.O. Box 114, 250 North Main Street, Dunkirk, Ohio 45836.

23. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement 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 School District at June 30, 2002.

B. Litigation

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

24. STATE 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2001**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$430,403	\$157,560	\$73	\$93,799
Cash and Cash Equivalents with Fiscal Agent		5,218		
Receivables :				
Property Taxes	875,709			69,552
Income Taxes	165,061			
Accounts	8,040	52		
Intergovernmental	64	10,564		
Accrued Interest	1,506			
Interfund	30,000			3,980
Prepaid items	13,057			
Inventory Held for Resale				
Material and Supplies Inventory				
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	147,279			
Fixed Assets(Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Obligation Debt				
Amount to be Provided from General Government Resources				
Total Assets and Other Debits	<u>1,671,119</u>	<u>173,394</u>	<u>73</u>	<u>167,331</u>
 Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts payable	6,500	4,886		2,033
Contracts payable	874			
Accrued Wages payable	261,402	14,873		
Compensated Absences Payable	2,810			
Interfund payable	3,980			
Intergovernmental Payable	110,591	4,501		
Deferred Revenue	822,025	9,878		62,726
Due to Students				
Accrued Interest Payable				622
Capital Lease Payable				
Notes Payable				150,000
Total Liabilities	<u>1,208,182</u>	<u>34,138</u>	<u></u>	<u>215,381</u>
 Fund Equity & Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved for Encumbrances	35,741	6,207		1,703
Reserved for Budget Stabilization	17,316			
Reserved for Textbooks	113,791			
Reserved for Capital Improvements	16,172			
Reserved for Taxes Unavailable for Appropriation	83,832			6,826
Unreserved:				
Undesignated	196,085	133,049	73	(56,579)
Total Fund Equity and Other Credits	<u>462,937</u>	<u>139,256</u>	<u>73</u>	<u>(48,050)</u>
 Total Liabilities, Fund Equity and Other Credits	 <u>\$1,671,119</u>	 <u>\$173,394</u>	 <u>\$73</u>	 <u>\$167,331</u>

The notes to the general purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$18,830	\$26,419			\$727,084
				5,218
				945,261
				165,061
37	1,000			9,129
				10,628
				1,506
				33,980
				13,057
1,001				1,001
81				81
				147,279
22,571		3,589,957		3,612,528
			73	73
			350,643	350,643
<u>42,520</u>	<u>27,419</u>	<u>3,589,957</u>	<u>350,716</u>	<u>6,022,529</u>
				13,419
				874
12,758				289,033
3,382			240,702	246,894
30,000				33,980
9,248			24,206	148,546
				894,629
	25,196			25,196
				622
			85,808	85,808
				150,000
<u>55,388</u>	<u>25,196</u>	<u></u>	<u>350,716</u>	<u>1,889,001</u>
		3,589,957		3,589,957
9,095				9,095
(21,963)				(21,963)
				43,651
				17,316
				113,791
				16,172
				90,658
	2,223			274,851
<u>(12,868)</u>	<u>2,223</u>	<u>3,589,957</u>	<u></u>	<u>4,133,528</u>
<u>\$42,520</u>	<u>\$27,419</u>	<u>\$3,589,957</u>	<u>\$350,716</u>	<u>\$6,022,529</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			Fiduciary Fund	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Property Taxes	\$922,575			\$69,138	\$991,713
Income Taxes	424,018				424,018
Intergovernmental	1,967,054	179,886		80,364	2,227,304
Interest	44,467	168			44,947
Tuition	18,073				18,073
Extracurricular Activities		47,102			47,102
Gifts and Donation	2,654	4,130			8,409
Miscellaneous	19,671	9,402			29,073
Total Revenues	3,398,512	240,688		149,502	3,790,639
Expenditures					
Current:					
Instruction:					
Regular	1,530,954	4,908			1,542,312
Special	147,264	86,455			233,719
Vocational	185,327	1,904			187,231
Support Services:					
Pupils	118,986	21,772			140,758
Instructional Staff	165,655	16,303			181,958
Board of Education	20,899				20,899
Administration	501,949	11,314			513,263
Fiscal	154,585	63		1,857	156,505
Operation and Maintenance of Plant	343,403			3,772	347,175
Pupil Transportation	151,733				151,733
Central	742	195			937
Extracurricular Activities	87,440	68,503			156,057
Capital Outlay	104,036			80,402	184,438
Debt Service					
Principal Retirement	19,418				19,418
Interest & Fiscal Charges				8,404	8,404
Total Expenditures	3,532,391	211,417		94,435	3,844,807
Excess of Revenues Over (Under) Expenditures	(133,879)	29,271		55,067	(4,627)
Other Financing Sources (Uses)					
Proceeds from Sale of Fixed Assets	500				500
Inception of Capital Lease	104,034				104,034
Operating Transfers In			33,581	37,490	71,071
Operating Transfers Out	(7,982)		(33,508)	(29,581)	(71,071)
Total Other Financing Sources (Uses)	96,552	73	73	7,909	104,534
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(37,327)	29,271	73	62,976	(4,627)
Fund Balances (Deficit) at Beginning at Year	500,264	109,985		(111,026)	6,850
Fund Balances (Deficit) at End of Year	\$462,937	\$139,256	\$73	(\$48,050)	\$556,439

The notes to the general purpose financial statements are an integral part of this statement.

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,380,191	\$868,567	(\$511,624)			
Income Taxes	326,687	419,665	92,978			
Intergovernmental	1,438,659	1,971,032	532,373	21,266	147,472	126,206
Interest	39,936	42,961	3,025	60		(60)
Tuition and Fees	3,381	19,090	15,709			
Extracurricular Activities				58,877	47,281	(11,596)
Gifts and Donations		2,654	2,654	973	4,130	3,157
Miscellaneous		15,765	15,765	4,600	9,435	4,835
Total Revenues	3,188,854	3,339,734	150,880	85,776	208,318	122,542
Expenditures						
Current:						
Instruction:						
Regular	1,480,708	1,492,380	(11,672)	53,127	11,738	41,389
Special	141,152	142,413	(1,261)	21,141	80,043	(58,902)
Vocational	180,530	181,284	(754)	2,455	1,104	1,351
Support Services:						
Pupils	111,855	114,754	(2,899)	2,000	2,000	
Instructional Staff	163,598	165,800	(2,202)	7,114	15,445	(8,331)
Board of Education	22,322	21,897	425			
Administration	566,019	533,195	32,824	47,026	12,291	34,735
Fiscal	161,585	151,475	10,110	125	125	
Operation and Maintenance of Plant	415,954	358,284	57,670			
Pupil Transportation	167,585	177,842	(10,257)			
Central	1,500	1,080	420	480	480	
Extracurricular Activities	95,375	89,657	5,718	69,417	69,953	(536)
Capital Outlay	100	2	98			
Debt Service						
Principal Retirement	1,200	1,192	8			
Interest & Fiscal Charges						
Total Expenditures	3,509,483	3,431,255	78,228	202,885	193,179	9,706
Excess of Revenues Over (Under) Expenditures	(320,629)	(91,521)	229,108	(117,109)	15,139	132,248
Other Financing Sources (Uses)						
Proceeds from Sale of Fixed Assets		500	500			
Refund of Prior Year Expenditures		8,275	8,275			
Operating Transfers In						
Operating Transfers Out	(14,500)	(7,982)	6,518			
Advances In						
Advances Out	(30,000)	(30,000)				
Total Other Financing Sources (Uses)	(44,500)	(29,207)	15,293			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(365,129)	(120,728)	244,401	(117,109)	15,139	132,248
Fund Balances at Beginning of Year		474,181		116,008	116,008	
Prior Year Encumbrances Appropriated	143,883	143,883		8,615	8,615	
Fund Balances (Deficit) at End of Year	(\$221,246)	\$497,336	\$244,401	\$7,514	\$139,762	\$132,248

The notes to the general purpose financial statements are an integral part of this statement.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$64,543	\$69,038	\$4,495			
			26,100	76,386	50,286		274	274
							625	625
			90,643	145,424	54,781		899	899
			52,251	34,991	17,260		6,450	(6,450)
			1,161		1,161			
			2,000	1,857	143			
			81,268	59,051	22,217			
						120	114	6
25,000	25,000							
9,800	8,508	1,292						
34,800	33,508	1,292	136,680	95,899	40,781	120	6,564	(6,444)
(34,800)	(33,508)	1,292	(46,037)	49,525	95,562	(120)	(5,665)	(5,545)
35,000	33,581	(1,419)	11,000	3,982	(7,018)			
			(36,000)	(29,581)	6,419			
35,000	33,581	(1,419)	(25,000)	(25,599)	(599)			
200	73	(127)	(71,037)	23,926	94,963	(120)	(5,665)	(5,545)
			47,881	47,881		6,850	6,850	
			18,256	18,256				
\$200	\$73	(\$127)	(\$4,900)	\$90,063	\$94,963	\$6,730	\$1,185	(\$5,545)

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Enterprise
Operating Revenues:	
Sales	\$129,129
Expenses:	
Salaries & Wages	69,339
Fringe Benefits	34,616
Purchased Services	5,331
Materials and Supplies	42,351
Cost of Sales	56,188
Depreciation	2,004
Other Operating Expenses	522
Total Operating Expenses	210,351
Operating Gain (Loss)	(81,222)
Nonoperating Revenues	
Federal Donated Commodities	19,629
Operating Grants	32,022
Interest	7
Total Nonoperating Revenues	51,658
Net (Loss)	(29,564)
Retained Earnings at Beginning of Year	7,601
Retained Earnings at End of Year	(21,963)
Contributed Capital	9,095
Fund Equity at End of Year	(\$12,868)

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Enterprise
Increase(Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$129,200
Cash Payments for Salaries	(66,444)
Cash Payments for Fringe Benefits	(27,048)
Cash Payments for Goods and Services	(82,760)
Cash Payments for Other Expenses	(522)
Net cash provided (used) by operating activities	(47,574)
Cash Flows from Noncapital Financing Activities :	
Cash Received from Operating Grants	32,022
Cash Received from Advances In	30,000
Net cash provided (used) by operating activities	62,022
Cash Flows from Investing Activities:	
Cash Received from Interest	7
Net increase in cash and cash equivalents :	14,455
Cash and cash equivalents at beginning of year	4,375
Cash and Cash Equivalents at End of Year	18,830
Reconciliation of operating income to net cash provided by operating activities:	
Operating Income (loss)	(81,222)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	2,004
Commodities expense related to noncash grant	19,629
Changes in assets and liabilities:	
Accounts receivables	71
Inventory Held for Resale	1,329
Material and Supplies inventory	152
Prepaid items	1,537
Accrued wages and benefits	3,282
Compensated Absences Payable	160
Intergovernmental Payable	5,484
Net Cash Provided (Used) by Operating Activities	(\$47,574)

The notes to the general purpose financial statements are an integral part of this statement.

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Hardin Northern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District is the 587th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty classified employees, forty-one certified teaching personnel, and three administrative employees who provide services to five hundred thirty-eight students and other community members. The School District currently operates three instructional/support buildings.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Northern Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Hardin Northern Local School District.

The School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the Western Ohio Computer Organization, Apollo Career Center, West Central Regional Professional Development Center, Hardin County Schools Consortium Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Ohio School Boards Association Workers' Compensation Group Rating Plan, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Hardin Northern Public Library. These organizations are discussed in Notes 21, 22, and 23 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the enterprise funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include an expendable trust fund and an agency fund. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, except those accounted for in proprietary funds or trust funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District, except those accounted for in proprietary funds or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust and agency funds. The full accrual basis of accounting is followed for the enterprise funds.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and donations.

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, revenues are recognized when received and expenses are recognized at the time they are incurred.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Title VI-B special revenue fund is a flow through grant in which the Hardin County Educational Service Center is the primary recipient. Budgetary information for this fund is not included within the School District's reporting entity for which the "appropriated budget" is adopted.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Hardin County Budget Commission for rate determination.

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds and funds held by the Hardin County Educational Service Center, consistent with statutory provisions.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types and the expendable trust fund and reported in the notes to the financial statements for the enterprise funds.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2001, investments were limited to nonnegotiable certificates of deposit, savings accounts, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. 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, 2001.

The School District has allocated interest to various funds during fiscal year 2001. Interest revenue credited to the General Fund during the fiscal year 2001 was \$44,467, which included \$10,806 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

E. Inventory

Inventory in the enterprise funds is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory in the enterprise funds consists of donated food, purchased food, and school supplies held for resale and is expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials, the acquisition and construction of capital improvements, and to create a reserve for budget stabilization.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise funds are capitalized in the respective fund. All fixed 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 value as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Improvements are capitalized. Improvements to the enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables." Due to/from other funds represent obligations incurred when one fund pays the expenses of another fund and is entitled to reimbursement.

Advances in and out on the budgetary statements do not balance due to budget versus actual statements not being presented for the Proprietary Fund Type.

J. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 School 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 School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after eight years of service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources. Capital leases are reported as a liability in the general long-term obligations account group until due.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term debt and other obligations financed by the enterprise funds are reported as liabilities in the appropriate fund.

Under Ohio law, a debt service fund may be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires reporting the liability in the fund that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year end.

M. Fund Balance Reserves

The School 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 property taxes, textbooks, capital improvements, budget stabilization, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. For the School District, the implementation of GASB Statement No. 36 had an immaterial effect on fund balances/retained earnings as previously reported for the fiscal year ended June 30, 2000.

4. RESTATEMENT OF RETAINED EARNINGS

Adoption of GASB Statements No. 33.

The implementation of GASB Statement No. 33 had the following effect on retained earnings previously reported as of June 30, 2000.

	Enterprise
Retained Earnings as Previously Reported	\$5,590
Deferred Revenue	2,011
Restated Retained Earnings at June 30, 2000	\$7,601

The restatement had the following effect on the net loss as previously reported for the year ended June 30, 2000.

	Enterprise
Net Loss as Previously Reported	\$(6,137)
Federal Donated Commodities	2,011
Restated Amount for the Year Ended June 30, 2000	\$(4,126)

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2001, the Title I Special Revenue Fund had a deficit fund balance of \$3,339. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

At June 30, 2001, the Permanent Improvement Capital Projects fund had a deficit fund balance of \$70,961, which was caused by the requirement to report the note liability in the fund receiving the note proceeds. The deficit will be alleviated when the notes are paid.

The Food Service Enterprise Fund had deficit retained earnings of \$15,163 at June 30, 2001, as a result of accumulated operating losses from prior years.

B. Compliance

At June 30, 2001, the following funds had appropriations in excess of estimated resources plus available balances which violated Ohio Rev. Code Section 5705.39.

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Public School Support	\$12,064	\$12,174	\$110
Summer School	0	5,777	5,777
Miscellaneous State Grants	45,242	70,609	25,367
Capital Projects Funds			
Vocational Education		1,161	1,161
Equipment			
SchoolNet	5,561	39,901	34,340
Tech Equity	2,350	12,350	10,000
Enterprise Fund			
Food Service	157,853	181,714	23,861

At June 30, 2001, the following accounts had expenditures/expenses in excess of appropriations which violated Ohio Rev. Code Section 5705.41(B).

<u>Fund Type/Fund/ Function/Object</u>	<u>Appropriations</u>	<u>Expenditures/ Expenses</u>	<u>Excess</u>
General Fund			
Regular/Salaries	\$1,068,440	\$1,081,056	\$12,616
Regular/Materials and Supplies	23,807	43,245	19,438
Regular/Capital Outlay – New	36,000	38,511	2,511
Regular/Capital Outlay – Replacement		3,040	3,040
Special/Materials and Supplies	1,000	3,499	2,499
Special/Capital Outlay – New	200	2,095	1,895
Vocational/Salaries	117,660	121,822	4,162
Vocational/Materials and Supplies	10,455	10,830	375
Pupils/Salaries	86,000	89,383	3,383
Pupils/Fringe Benefits	21,105	21,691	586
Instructional Staff/Fringe Benefits	28,625	30,239	1,614

(continued)

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Type/Fund/ Function/Object	Appropriations	Expenditures/ Expenses	Excess
General Fund (continued)			
Administration/Fringe Benefits	\$87,650	\$89,490	\$1,840
Administration/Capital Outlay - New	5,840	6,299	459
Fiscal/Salaries	13,000	13,933	933
Fiscal/Fringe Benefits	1,695	4,932	3,237
Fiscal/Other	71,025	71,729	704
Operation and Maintenance of Plant/Salaries	99,300	103,208	3,908
Operation and Maintenance of Plant/ Purchased Services	88,703	101,496	12,793
Extracurricular Activities/Fringe Benefits	16,075	16,253	178
Special Revenue Funds			
Athletic			
Extracurricular Activities/Purchased Services	27,330	27,705	375
Extracurricular Activities/Materials and Supplies	11,995	16,354	4,359
Extracurricular Activities/Capital Outlay - New	12,903	14,873	1,970
EMIS			
Instructional Staff/Salaries		331	331
Instructional Staff/Fringe Benefits		104	104
Administration/Salaries		918	918
Administration/Fringe Benefits		177	177
Title I			
Special/Salaries	13,561	63,937	50,376
Special/Fringe Benefits	3,478	15,287	11,809
Instructional Staff/Salaries	325	8,951	8,626
Instructional Staff/Fringe Benefits	583	1,958	1,375
Administration/Salaries	130	1,526	1,396
Administration/Fringe Benefits		140	140
Capital Projects Fund			
School Facilities			
Operation and Maintenance of Plant/Capital Outlay - New	\$23,643	\$35,573	\$11,930
Expendable Trust Fund			
Regular/Other		6,450	6,450

6. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types 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 GAAP basis are that:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. BUDGETARY BASIS OF ACCOUNTING (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and the expendable trust fund.
4. Proceeds from and principal payments on tax anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District repays tax anticipation debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.
6. Although not part of the appropriated budget, the Title VI-B special revenue fund is included as part of the reporting entity when preparing financial statements that conform with GAAP.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund
Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$37,327)	\$29,271	\$73	\$62,976	(\$4,627)
<u>Increase (Decrease) Due To:</u>					
Revenue Accruals:					
Accrued FY 2000, Received in Cash FY 2001	173,782	264		6,728	
Accrued FY 2001, Not Yet Received in Cash	(224,375)	(738)		(10,806)	(1,000)
Expenditure Accruals:					
Accrued FY 2000, Paid in Cash FY 2001	(323,963)	(15,404)		(8,891)	
Accrued FY 2001, Not Yet Paid in Cash	382,222	24,760		2,655	
Cash Adjustments:					
Unrecorded Activity FY 2001	(23,347)	(9,871)			(38)
Prepaid Items	19,234	502			
Note Principal Retirement			(25,000)		
Note Interest			(8,508)	8,508	
Advances Out	(30,000)				
Reallocation of Debt Activity			33,508	(33,508)	
Excess of Revenues Over Expenditures For Nonbudgeted Funds		(5,218)			
Encumbrances Outstanding at Year End (Budget Basis)	(56,954)	(8,427)		(3,736)	
Budget Basis	(\$120,728)	\$15,139	\$73	\$23,926	(\$5,665)

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two 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 deposits are deposits of interim monies. 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 School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 bills, bonds, notes, 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;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS

Investments in stripped principal or interest obligations, reverse repurchase 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 School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$5,218 in cash and cash equivalents held by the Hardin County Educational Service Center, which are included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At fiscal year end, the carrying amount of the School District's deposits was \$8,262 and the bank balance was \$82,516. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School 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 School 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 School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2001, the fair value of funds on deposit with STAR Ohio was \$866,101.

The classification of cash and cash equivalents and investments on the combined balance sheet 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 classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$879,581	\$0
Cash and Cash Equivalents with Educational Service Center	(5,218)	0
Investments:		
STAR Ohio	(866,101)	866,101
GASB Statement No. 3	\$8,262	\$866,101

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2001 represent the collection of calendar year 2000 taxes. Real property taxes received in calendar year 2001 are levied after April 1, 2000, on the assessed values as of January 1, 2000, 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 received in calendar year 2001 were levied after April 1, 2000, on the assessed values as of December 31, 1999, 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 2001 (other than public utility property) represent the collection of calendar year 2001 taxes. Tangible personal property taxes received in calendar year 2001 were levied after April 1, 2000, on the value as of December 31, 2000. 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 School District receives property taxes from Hardin and Hancock Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2001, are available to finance fiscal year 2001 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, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at year end. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2001, was \$83,832 in the General Fund and \$6,826 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2000, was \$33,804 in the General Fund and \$2,746 in the Permanent Improvement capital projects fund.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2001 taxes were collected are:

	2000 Second - Half Collections		2001 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$35,570,760	87.04%	\$36,297,810	87.49%
Public Utility	3,709,720	9.08	3,860,380	9.31
Tangible Personal	1,583,555	3.88	1,328,572	3.20
Total Assessed Value	<u>\$40,864,035</u>	<u>100.00%</u>	<u>\$41,486,762</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.35		\$37.35	

8. INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

9. RECEIVABLES

Receivables at June 30, 2001, consisted of both property and income taxes, accounts, intergovernmental, accrued interest, and interfund receivables. 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. Accounts receivable at June 30 were \$9,129.

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Ohio Department of Education	\$64
Special Revenue Funds	
Eisenhower	211
Title I	1,722
Title VI	878
Drug Free	914
Title VI-R	<u>6,839</u>
Total Special Revenue Funds	<u>10,564</u>
Total Intergovernmental Receivables	<u>\$10,628</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

10. FIXED ASSETS

A summary of the Enterprise Funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$42,818
Less Accumulated Depreciation	<u>(20,247)</u>
Net Fixed Assets	<u>\$22,571</u>

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
Land and Improvements	\$168,672			\$168,672
Buildings and Improvements	1,894,996			1,894,996
Vehicles	388,310	104,034	40,580	451,764
Furniture and Equipment	938,465	141,972	5,912	1,074,525
Total General Fixed Assets	\$3,390,443	\$246,006	\$46,492	\$3,589,957

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable
Fund Type/Fund		
General Fund	\$30,000	\$3,980
Capital Projects Fund		
Permanent Improvement	3,980	
Enterprise Fund		
Food Service		30,000
Total All Funds	\$33,980	\$33,980

12. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2001, the School District contracted with the Nationwide Insurance Company for the following insurance coverage.

Buildings and Contents - replacement cost (\$1,000 deductible)	\$8,441,700
Professional Liability	
Per Occurrence	2,000,000
Aggregate	5,000,000
General Liability	
Per Occurrence	2,000,000
Aggregate	5,000,000
Vehicle Liability	1,000,000
Uninsured Motorist	1,000,000

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

12. RISK MANAGEMENT (Continued)

Umbrella Liability	
Per Occurrence	2,000,000
Aggregate	2,000,000
Electronic Data Processing (\$100 deductible)	340,200
Musical Instruments (\$100 deductible)	86,300
Public Employee Dishonesty	10,000

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

B. Workers' Compensation

For fiscal year 2001, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

The School District participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The School District pays monthly premiums to the Trust for medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

13. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$164,236, \$94,455, and \$91,766, respectively; 81 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$30,735, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$18,087, \$25,565, and \$33,977, respectively; 35 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$11,822, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2001, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

14. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$77,811.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$46,283 for fiscal year 2001.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001, were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

15. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred days for classified employees and two hundred ten days for certified employees. The maximum amount of days to be paid at retirement is based upon the total years of service at the time of retirement.

B. Health Care Benefits

The School District provides medical, dental, vision, and life insurance to most employees through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

16. NOTES PAYABLE

In fiscal year 1997, the School District issued tax anticipation notes, in the amount of \$250,000, for improving the School District's buildings. The notes were issued for a ten year period at an interest rate of 5.15 percent. Principal, in the amount of \$25,000, was retired during fiscal year 2001. The principal outstanding at June 30, 2001, was \$150,000. The notes are being paid with tax levy monies which are posted to the Capital Projects Fund and transferred to the Debt Service Fund for payment.

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2000, were as follows:

Fiscal Year Ending June 30,	Amount
2002	32,081
2003	30,794
2004	29,506
2005	28,219
2006	26,931
2007	25,644
Total	<u>\$173,175</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/01</u>
Energy Conservation Loan Payable	\$1,192		\$1,192	
Compensated Absences Payable	239,309	1,393		240,702
Intergovernmental Payable	32,404	24,206	32,404	24,206
Capital Leases Payable		104,034	18,226	85,808
Total General Long-Term Obligations	<u>\$272,905</u>	<u>\$129,633</u>	<u>\$51,822</u>	<u>\$350,716</u>

The energy conservation loan represents monies borrowed from the State for improvements to conserve energy. This is an interest free loan. The energy conservation loan was fully retired in fiscal year 2001 from the General Fund.

Compensated absences and intergovernmental payables, representing the School District's contractually required pension contributions, will be paid from the fund from which the employee's salary is paid. Capital leases will be paid from the General Fund.

The School District's overall debt margin was \$3,583,882 with an unvoted debt margin of \$41,487 at June 30, 2001.

18. CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for buses. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets acquired by lease have been capitalized in the general fixed assets account group, in the amount of \$104,034. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2001 were \$18,226 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001.

Fiscal Year Ending June 30,	
2002	\$18,224
2003	18,224
2004	18,226
2005	48,000
Total	102,674
Less Amount Representing Interest	<u>(16,866)</u>
Present Value of Net Minimum Lease Payments	<u>\$85,808</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

19. SET ASIDE REQUIREMENTS

The School 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2001, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2001.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2000	\$68,400		\$41,858
Current Year Set Aside Requirement	79,190	79,190	
Legislative Reduction			(24,542)
Qualifying Expenditures	(33,799)	(63,018)	
Balance June 30, 2001	<u>\$113,791</u>	<u>\$16,172</u>	<u>\$17,316</u>

The total reserve balance for the set asides at the end of the fiscal year was \$147,279.

20. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2000.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$121,480	\$7,649	\$129,129
Depreciation Expense	2,004		2,004
Operating Income (Loss)	(81,592)	370	(81,222)
Federal Donated Commodities	19,629		19,629
Operating Grants	32,022		32,022
Net Income (Loss)	(29,934)	370	(29,564)
Net Working Capital	(34,352)	2,295	(32,057)
Total Assets	40,225	2,295	42,520
Total Equity (Deficit)	<u>(15,163)</u>	<u>2,295</u>	<u>(12,868)</u>
Encumbrances Outstanding at Year End (Budget Basis)	<u>1,306</u>		<u>1,306</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

21. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Hardin, Logan, and Shelby 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. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools districts within each county. Financial information can be obtained from Sonny Ivey, who serves as Director, 129 East Court Street, Sidney, Ohio 45365.

B. Apollo Career Center

The Apollo Career Center is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Apollo Joint Vocational School, Greg Bukowski, who serves as Treasurer, 3325 Shawnee Road, Lima, Ohio 45806.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (the Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. Hardin County Schools Consortium Local Professional Development Committee

The Hardin County Schools Consortium Local Professional Development Committee (the Consortium) is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from the Hardin County Educational Service Center, who serves as fiscal agent, at 1211 West Lima Street, Kenton, Ohio 43326.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

21. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. 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 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., Box 456, Ashland, Ohio 44805.

22. INSURANCE POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Hardin County School Employees' Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the "Trust") is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 Township Road 50, Dola, Ohio 45835.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

23. RELATED ORGANIZATION

The Hardin Northern Public Library is a distinct subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Hardin Northern Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Hardin Northern Public Library, Kay Potter, Clerk/Treasurer, P.O. Box 114, 250 North Main Street, Dunkirk, Ohio 45836.

24. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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 School District at June 30, 2001.

B. Litigation

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

25. STATE 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Hardin Northern Local School District
Hardin County
11589 State Route 81
Dola, Ohio 45835

To the Board of Education:

We have audited the financial statements of Hardin Northern Local School District, Hardin County, (the "School District"), as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated December 17, 2002, wherein we noted the School District implemented Governmental Accounting Statement No. 33 as of June 30, 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in accompanying schedule of finding as items 2002-10233-001 and 2002-10233-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 17, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 17, 2002.

Hardin Northern Local School District
Hardin County
Report of Independent Accountants on Compliance And on
Internal Control Required By *Government Auditing Standards*
Page 2

This report is intended for the information and use of the management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

Jim Petro
Auditor of State

December 17, 2002

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002 AND 2001**

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

FINDING NUMBER 2002-10233-001

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund should not exceed the total estimated resources.

At June 30, 2001, the following School District funds had appropriations that exceeded estimated resources:

<u>SPECIAL REVENUE</u>	<u>ESTIMATED RESOURCES</u>	<u>APPROPRIATIONS</u>	<u>VARIANCE</u>
Public School Support Fund	\$12,064	\$12,174	(\$110)
Summer School Fund		5,777	(5,777)
Miscellaneous State Grants Fund	45,242	70,609	(25,367)
CAPITAL PROJECTS			
Vocational Education Equipment Fund		1,161	(1,161)
School Net Fund	5,561	39,901	(34,340)
Tech Equity Fund	2,350	12,350	(10,000)
ENTERPRISE			
Food Service Fund	157,853	181,714	(23,861)

To help ensure compliance with this Ohio Rev. Code requirement and to help reduce the risk of deficit spending, the School District should implement review procedures to help identify funds that have appropriations in excess of estimated resources. In addition, the School District's Board should review monthly budget versus actual reports to help funds that have deficiencies in actual revenues which could result in appropriations greater than estimated resources.

FINDING NUMBER 2002-10233-002

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. At June 30, 2001, the School District had numerous violations of this requirement at their legal level of control. The more significant of these violations are as follows:

<u>SPECIAL REVENUE</u>	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>	<u>VARIANCE</u>
Athletic Fund - Extracurricular Activities/Materials and Supplies	\$11,995	\$16,354	\$4,359
Title 1 Fund - Special/Salaries	13,561	63,937	50,376
Title 1 Fund - Special/Fringe Benefits	3,478	15,287	11,809

FINDING NUMBER 2002-10233-002
(Continued)

Title 1 Fund – Instructional Staff/Salaries	\$ 325	\$ 8,951	\$ 8,626
Title 1 Fund – Instructional Staff/Fringe Benefits	583	1,958	1,375
CAPITAL PROJECTS			
School Facilities Fund – Operation and Maintenance of Plant/ Capital Outlay/New	23,643	35,573	11,930
EXPENDABLE TRUST			
Expendable Trust Fund		6,450	6,450

To help ensure compliance with this requirement and to help prevent deficit spending, the School District's Board should receive monthly budget versus actual reports. These reports should be presented at the School District's legal level of control. Evidence of the Board's review and approval of these reports should be recorded in the School District's minutes.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002 AND 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10233-001	Ohio Admin Code 3301-92-04 (F), Updating of five year forecast	No	Partially corrected. Repeated as management letter comment
2000-10233-002	ORC 5705.10 Negative Fund Balances	Yes	Fully Corrected
2000-10233-003	ORC 5705.391(B), Assumptions for five year forecast	Yes	Fully Corrected
2000-10233-004	5705.41(B), Appropriation of expenditures	No	Not corrected. Repeat as Finding Number 2002-10233-002



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HARDIN NORTHERN LOCAL SCHOOL DISTRICT

HARDIN 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
JANUARY 9, 2003**