

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
Regular Audit  
For the Year Ended June 30, 2011**

***Perry & Associates***  
Certified Public Accountants, A.C.





# Dave Yost • Auditor of State

Board of Education  
Hardin Northern Local School District  
11589 State Route 81  
Dola, Ohio 45835

We have reviewed the *Independent Accountants' Report* of the Hardin Northern Local School District, Hardin County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hardin Northern Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 12, 2013

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY**

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***Perry & Associates***  
Certified Public Accountants, A.C.

[www.perrycpas.com](http://www.perrycpas.com)

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056  
(740) 373-2402 Fax

PARKERSBURG  
1035 Murdoch Avenue  
Parkersburg, WV 26101  
(304) 422-2203  
(304) 428-5587 Fax

ST. CLAIRSVILLE  
121 E. Main Street  
St. Clairsville, OH 43950  
(740) 695-1569  
(740) 695-5775 Fax

**INDEPENDENT ACCOUNTANTS' REPORT**

December 20, 2012

Hardin Northern Local School District  
Hardin County  
11589 St. Rt. 81  
Dola, Ohio 45835

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Hardin Northern Local School District**, Hardin County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hardin Northern Local School District, as of June 30, 2011, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 24, during 2011 the School District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

**Perry and Associates**  
Certified Public Accountants, A.C.



**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

The discussion and analysis of Hardin Northern Local School District's (the "School District") financial performance provides an overall view of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- Net assets of governmental activities increased \$508,342.
- General revenues accounted for \$4,588,523 in revenue or 76.4% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$1,413,686 or 23.6% of total revenues of \$6,002,209.
- The School District had \$5,493,867 in expenses related to government activities; only \$1,192,163 of these expenses was offset by program specific charges for services and operating grants. General revenues of \$4,588,523 were adequate to provide for these programs. This year the School District also received \$221,523 in Capital Grants and Contributions to finance the new school facilities.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Hardin Northern Local School District, the General Fund and the Ohio School Facilities Commission Local Share Fund are the most significant major funds.

**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. In the Statement of Net Assets and the Statement of Activities, the School District has only governmental activities:

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2011  
Unaudited

- Governmental Activities - All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, food services and extracurricular activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Ohio School Facilities Commission Local Share Fund.

**Governmental Funds** All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2011 as compared to fiscal year 2010.

Table 1  
Net Assets

	Governmental Activities	
	2011	2010
<b>Assets</b>		
Current Assets	\$ 5,006,885	\$ 10,256,720
Capital Assets	14,536,926	9,001,943
Total Assets	19,543,811	19,258,663
 <b>Liabilities</b>		
Current Liabilities	1,386,890	1,515,952
Long-Term Liabilities	4,418,693	4,512,825
Total Liabilities	5,805,583	6,028,777
 <b>Net Assets</b>		
Invested in Capital	10,231,925	4,547,030
Restricted	531,352	6,178,008
Unrestricted (Deficit)	2,974,951	2,504,848
Total Net Assets	\$ 13,738,228	\$ 13,229,886

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2011  
Unaudited

Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010:

Table 2  
Change in Net Assets

	Governmental Activities	
	2011	2010
Program Revenues:		
Charges for Services	\$ 557,296	\$ 546,664
Operating Grants and Contributions	634,867	614,772
Capital Grants and Contributions	221,523	4,180,545
General Revenues:		
Property Taxes	1,308,402	1,219,552
Income Taxes	861,806	816,505
Grants and Entitlements	2,393,419	2,452,124
Unrestricted Investment Earnings	2,539	53,291
Gain on Sale of Assets	-	11,758
Miscellaneous	22,357	22,271
Total Revenues	<u>6,002,209</u>	<u>9,917,482</u>
<b>Expenses</b>		
Program Expenses:		
Instruction:		
Regular	2,271,801	2,373,141
Special	461,154	433,928
Vocational	317,728	231,013
Support Services:		
Pupils	156,103	154,786
Instructional Staff	152,600	152,391
Board of Education	47,605	41,638
Administration	459,410	481,122
Fiscal	224,131	205,703
Operation of Maintenance	407,617	295,657
Pupil Transportation	179,074	234,036
Operation of Non-Instructional	176,785	167,527
Extracurricular Activities	189,870	189,277
Facilities Acquisition Construction	245,247	90,798
Interest and Fiscal Charges	204,742	161,177
Total Expenses	<u>5,493,867</u>	<u>5,212,194</u>
Increase in Net Assets	<u>\$ 508,342</u>	<u>\$ 4,705,288</u>

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

**Governmental Activities**

The net assets of the School District's governmental activities increased by \$508,342, however, \$221,523 was received in the form of a capital grant for new renovation and construction. Program revenue of \$1,413,686 and general revenues of \$4,588,523 offset total governmental expenses of \$5,493,867. Program revenues supported only 21.7% of the total governmental expenses without the Classroom Facilities Capital Grant.

Several revenue sources fund the School District's governmental activities with property tax and state foundation revenues being the largest contributors. Property tax levies generated \$1,308,402 in fiscal year 2011. General revenues from grants and entitlements, such as the school foundation program, generated \$2,393,419. These two revenue sources represent 64.0% of total governmental revenue excluding the capital grants and contributions of \$221,523.

Real estate property is reappraised every six years. Hardin County had its triennial update in calendar year 2006. Although historical growth has had a positive effect on the School District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. Thus, although the School District tax valuation continues to grow, this built-in revenue limitation requires the School District to request additional school operating revenue by placing a levy on the ballot every three to five years, on average.

The DeRolph III court case decisions have not eliminated the local dependence on property taxes. This factor continues to be a situation the School District has to deal with in providing funding for the program offering of the School District.

The Statement of Activities shows the cost of program services and the charges for services and grants attributable to those services. Instruction costs comprise 55.5% of governmental program expenses.

**The School District's Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$5,955,807 and total expenditures and other financing uses were \$11,151,011. The School District expenditures exceeded the revenues by \$5,195,204 because of the construction and renovation of the new school facilities.

The School District's General Fund balance increased by \$282,006. The increase from last year can be attributed primarily to the overall decrease in overall expenditures.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the School District's General Fund.

During fiscal year 2011, the School District amended its General Fund balance. Budget revisions are presented to the Board of Education for approval. This year amendments were considered routine.

For the General Fund, the final budget basis revenue estimate was \$4,533,556, which was lower than the original revenue estimate of \$4,542,768. Actual revenue on the budget basis was \$4,538,640.

The original expenditures estimate of \$4,640,753 was decreased to \$4,629,316. The actual expenditures were \$4,362,416.

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2011  
Unaudited

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2011, the School District had \$14,536,926 invested in land, buildings, equipment and vehicles, net of \$3,913,367 of accumulated depreciation. The table below shows a comparison of fiscal year 2011 to 2010.

Capital Assets (Net of Depreciation)	Governmental Type Activities	
	2011	2010
Land	\$ 20,000	\$ 20,000
Land Improvements	89,964	72,420
Buildings and Improvements	14,127,054	8,551,610
Furniture and Equipment	212,124	250,003
Vehicles	87,784	107,910
<b>Total Capital Assets</b>	<b>\$ 14,536,926</b>	<b>\$ 9,001,943</b>

*Long Term Liabilities*

As of June 30, 2011, the School District has \$4,418,693 in long-term liabilities. School Improvement Bonds, a capital lease and vested compensated absences are the only long-term liabilities with \$102,385 due within one year. Table 4 summarizes long-term liabilities and shows a comparison to fiscal year 2010.

Table 4

Long Term Liabilities at Fiscal Year End	Governmental	Governmental
	Activities	Activities
	2011	2010
School Improvement Bonds, 4.6%, Mature 2036	\$ 3,410,000	\$ 3,470,000
Capital Lease Payable	895,001	923,180
Compensated Absences Payable (Vested Severance)	113,692	119,645
<b>Total</b>	<b>\$ 4,418,693</b>	<b>\$ 4,512,825</b>

The School District faces many challenges in the future. As the preceding information shows, the School District relies heavily upon grants and entitlements and property taxes. Another challenge facing the School District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward schools districts with little property tax wealth. On December 11, 2003, the Ohio Supreme Court issued an opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional. Since then, the Ohio Supreme Court has relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding plan 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.

Due to the unsettled issues in Ohio public school funding, district management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

**Contacting the School District’s Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District’s finances and show the School District’s accountability for the money it receives. If you have any questions about this report or need financial information contact, Mr. Wes Potter, Treasurer of Hardin Northern Local School District, 11589 State Route 81, Dola, Ohio 45835.

**Hardin Northern Local School District**  
*Statement of Net Assets*  
 June 30, 2011

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,978,722
Receivables:	
Property Taxes	1,172,990
Intergovernmental	190,769
Income Tax	437,186
Accrued Interest Receivable	52
Prepaid Items	51,120
Inventory Held for Resale	1,457
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	174,589
Land	20,000
Capital Assets, Net of Depreciation	14,516,926
Total Assets	19,543,811
 <u>Liabilities:</u>	
Accounts Payable	41,021
Accrued Wages	311,079
Intergovernmental Payable	113,864
Accrued Interest Payable	12,381
Deferred Revenue	908,545
Long-Term Liabilities:	
Due Within One Year	102,385
Due in More Than One Year	4,316,308
Total Liabilities	5,805,583
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	10,231,925
Restricted for:	
Debt Service	115,031
Capital Projects	404,048
Other Purposes	12,273
Unrestricted	2,974,951
Total Net Assets	\$ 13,738,228

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$ 2,271,801	\$ 420,570	\$ 225,743	\$ 2,608	\$ (1,622,879)
Special	461,154	59,157	16,986	-	(385,011)
Vocational	317,728	-	-	-	(317,728)
<b>Support Services:</b>					
Pupils	156,103	-	-	-	(156,103)
Instructional Staff	152,600	-	288,654	-	136,054
Board of Education	47,605	-	-	-	(47,605)
Administration	459,410	-	5,000	-	(454,410)
Fiscal	224,131	-	-	1,186	(222,945)
Operation and Maintenance	407,617	-	17,500	19,918	(370,199)
Pupil Transportation	179,074	-	-	-	(179,074)
Operation of Non-Instructional	176,785	77,569	80,984	-	(18,232)
Extracurricular Activities	189,870	-	-	-	(189,870)
Facilities Acquisition and Construction	245,247	-	-	197,811	(47,436)
Interest and Fiscal Charges	204,742	-	-	-	(204,742)
	<b>\$ 5,493,867</b>	<b>\$ 557,296</b>	<b>\$ 634,867</b>	<b>\$ 221,523</b>	<b>(4,080,181)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes, Levied for General Purposes					973,975
Property Taxes, Levied for Special Revenue Purposes					19,368
Property Taxes, Levied for Debt Service Retirement					203,108
Property Taxes, Levied for Capital Projects					111,951
Income Taxes, Levied for General Purposes					861,806
Grants and Entitlements not Restricted to Specific Purposes					2,393,419
Unrestricted Investment Earnings					2,539
Miscellaneous					22,357
					<b>4,588,523</b>
<b>Total General Revenues</b>					<b>4,588,523</b>
<b>Change in Net Assets</b>					<b>508,342</b>
<b>Net Assets, June 30, 2010</b>					<b>13,229,886</b>
<b>Net Assets, June 30, 2011</b>					<b>\$ 13,738,228</b>

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Balance Sheet*  
*Governmental Funds*  
 June 30, 2011

	General Fund	OSFC Local Share Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,227,984	\$ 174,352	\$ 576,386	\$ 2,978,722
Receivables:				
Taxes	877,200	1,702	294,088	1,172,990
Intergovernmental	-	-	190,769	190,769
Income Taxes	437,186	-	-	437,186
Accrued Interest	52	-	-	52
Prepaid Items	42,621	-	8,499	51,120
Inventory for Resale	-	-	1,457	1,457
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	174,589	-	-	174,589
Total Assets	<u>\$ 3,759,632</u>	<u>\$ 176,054</u>	<u>\$ 1,071,199</u>	<u>\$ 5,006,885</u>
<u>Liabilities:</u>				
Accounts Payable	\$ 20,854	\$ -	\$ 20,167	\$ 41,021
Accrued Wages	261,530	-	49,549	311,079
Intergovernmental Payable	102,702	-	11,162	113,864
Deferred Revenue	880,304	-	435,300	1,315,604
Total Liabilities	<u>1,265,390</u>	<u>-</u>	<u>516,178</u>	<u>1,781,568</u>
<u>Fund Balances:</u>				
Nonspendable	42,621	-	9,956	52,577
Restricted	317,215	176,054	622,017	1,115,286
Assigned	51,576	-	-	51,576
Unassigned (Deficit)	2,082,830	-	(76,952)	2,005,878
Total Fund Balances	<u>2,494,242</u>	<u>176,054</u>	<u>555,021</u>	<u>3,225,317</u>
Total Liabilities and Fund Balances	<u>\$ 3,759,632</u>	<u>\$ 176,054</u>	<u>\$ 1,071,199</u>	<u>\$ 5,006,885</u>

See the accompanying notes to the basic financial statements.



**Hardin Northern Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities*  
 For the Fiscal Year Ended June 30, 2011

Total Governmental Fund Balances	\$	3,225,317
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*Amounts reported for governmental activities in the  
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,536,926
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Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds:

Deferred Revenue-Property Taxes		70,791
Deferred Revenue-Intergovernmental Grants		190,539
Deferred Revenue-Income Taxes		145,729

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

School Improvement Bonds Payable		(3,410,000)
Capital Lease Payable		(895,001)
Accrued Interest Payable		(12,381)
Compensated Absences Payable		(113,692)
	\$	13,738,228

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Revenues, Expenditures  
and Changes in Fund Balances*  
*Governmental Funds*  
For the Fiscal Year Ended June 30, 2011

	General Fund	OSFC Local Share Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property and Other Taxes	\$ 962,394	\$ -	\$ 334,427	\$ 1,296,821
Income Taxes	852,004	-	-	852,004
Intergovernmental	2,360,152	197,811	639,027	3,196,990
Investment Income	723	1,330	486	2,539
Tuition	407,317	-	-	407,317
Extracurricular Activities	-	-	59,157	59,157
Charges for Services	-	-	77,569	77,569
Classroom Materials and Fees	13,253	-	-	13,253
Miscellaneous	16,379	-	5,978	22,357
<b>Total Revenue</b>	<b>4,612,222</b>	<b>199,141</b>	<b>1,116,644</b>	<b>5,928,007</b>
<b>Expenditures:</b>				
<b>Instruction:</b>				
Regular	2,118,985	-	190,310	2,309,295
Special	211,047	-	250,107	461,154
Vocational	316,697	-	-	316,697
<b>Support Services:</b>				
Pupils	155,648	-	455	156,103
Instructional Staff	97,641	-	54,590	152,231
Board of Education	47,605	-	-	47,605
Administration	449,702	-	5,029	454,731
Fiscal	214,087	-	8,617	222,704
Operation and Maintenance	386,434	250	50,500	437,184
Pupil Transportation	177,177	-	-	177,177
Operation of Non-Instructional	467	-	174,396	174,863
Extracurricular Activities	126,926	-	66,940	193,866
Facilities Acquisition and Construction	-	5,274,974	451,477	5,726,451
<b>Debt Service:</b>				
Principal Payments	-	-	88,179	88,179
Interest and Fiscal Charges	-	-	204,971	204,971
<b>Total Expenditures</b>	<b>4,302,416</b>	<b>5,275,224</b>	<b>1,545,571</b>	<b>11,123,211</b>
Excess of Revenues Over (Under) Expenditures	309,806	(5,076,083)	(428,927)	(5,195,204)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	27,800	27,800
Transfers Out	(27,800)	-	-	(27,800)
<b>Total Other Sources (Uses)</b>	<b>(27,800)</b>	<b>-</b>	<b>27,800</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>282,006</b>	<b>(5,076,083)</b>	<b>(401,127)</b>	<b>(5,195,204)</b>
<b>Fund Balances Beginning of Year</b>	<b>2,212,236</b>	<b>5,252,137</b>	<b>956,148</b>	<b>8,420,521</b>
<b>Fund Balances End of Year</b>	<b>\$ 2,494,242</b>	<b>\$ 176,054</b>	<b>\$ 555,021</b>	<b>\$ 3,225,317</b>

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities*  
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances-Total Governmental Funds \$ (5,195,204)

Amounts reported in governmental activities in  
the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.  
However, in the Statement of Activities the cost of those  
assets is allocated over their estimated useful lives as  
depreciation expense. This is the amount by which capital  
outlays was over (under) depreciation in the current period.

Capital Outlays	\$ 5,864,577	
Depreciation Expense	<u>(329,594)</u>	5,534,983

Revenues in the Statement of Activities that do not provide  
current financial resources are not reported as revenues in  
the funds.

Property Taxes	\$ 11,581	
Income Taxes	9,802	
Intergovernmental Grants	<u>52,819</u>	74,202

Repayment of long-term debt is reported as an expenditure  
in governmental funds, but the repayment reduces long-  
term liabilities in the statement of net assets.

Bond Principal Retirement		60,000
Lease Purchase Principal Payment		28,179

In the Statement of Activities, interest is accrued on  
on an outstanding note, whereas in governmental funds, an  
interest expenditure is reported when due.

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Some expenses reported in the Statement of Activities,  
such as compensated absences do not require  
the use of current financial resources and therefore are  
not reported as expenditures in governmental funds.

Compensated Absences		<u>5,953</u>
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Change in Net Assets of Governmental Activities		<u><u>\$ 508,342</u></u>
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See the accompanying notes to the basic financial statements.

**Hardin Northern School District**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2011*

	<u>Budgeted Amounts</u>			Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Property and Other Taxes	\$ 885,000	\$ 904,299	\$ 904,299	\$ -
Income Taxes	804,500	832,401	832,401	-
Intergovernmental	2,447,143	2,340,045	2,360,152	20,107
Investment Income	15,000	15,000	4,839	(10,161)
Tuition	377,000	409,317	407,317	(2,000)
Classroom Materials and Fees	11,625	15,564	13,253	(2,311)
Miscellaneous	2,500	16,930	16,379	(551)
Total Revenue	<u>4,542,768</u>	<u>4,533,556</u>	<u>4,538,640</u>	<u>5,084</u>
<b>Expenditures:</b>				
<b>Instruction:</b>				
Regular	2,230,560	2,279,900	2,188,759	91,141
Special	276,480	244,755	228,976	15,779
Vocational	312,940	290,754	238,353	52,401
<b>Support Services:</b>				
Pupils	164,898	163,473	159,782	3,691
Instructional Staff	112,615	106,834	100,104	6,730
Board of Education	39,568	52,476	51,812	664
Administration	474,678	479,375	471,598	7,777
Fiscal	223,235	230,591	214,992	15,599
Operation and Maintenance	450,735	431,421	390,212	41,209
Pupil Transportation	233,444	221,165	189,989	31,176
Operation of Non-Instructional	1,200	1,200	467	733
Extracurricular Activities	120,400	127,372	127,372	-
Total Expenditures	<u>4,640,753</u>	<u>4,629,316</u>	<u>4,362,416</u>	<u>266,900</u>
Excess of Revenues Over (Under) Expenditures	<u>(97,985)</u>	<u>(95,760)</u>	<u>176,224</u>	<u>271,984</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	500	-	-	-
Transfer In	70,000	-	-	-
Transfer Out	(95,053)	(27,800)	(27,800)	-
Total Other Sources (Uses)	<u>(24,553)</u>	<u>(27,800)</u>	<u>(27,800)</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>(122,538)</u>	<u>(123,560)</u>	<u>148,424</u>	<u>271,984</u>
<b>Fund Balances (Deficit) at</b>				
Beginning of Year	2,204,371	2,204,371	2,204,371	-
Prior Year Encumbrances Appropriated	<u>45,988</u>	<u>45,988</u>	<u>45,988</u>	<u>-</u>
Fund Balances (Deficit) at End of Year	<u>\$ 2,127,821</u>	<u>\$ 2,126,799</u>	<u>\$ 2,398,783</u>	<u>\$ 271,984</u>

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
 June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 307	\$ 36,169
Total Current Assets	307	36,169
Total Assets	\$ 307	\$ 36,169
<u>Liabilities:</u>		
Due to Students	\$ -	\$ 33,594
Accounts Payable	-	2,575
Total Current Liabilities	-	\$ 36,169
Total Liabilities	-	
<u>Net Assets:</u>		
Unrestricted:		
Held in Trust for Scholarship	307	
Total Net Assets	\$ 307	

See the accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
<u>Additions:</u>	
Other Operating Revenue	\$ -
Total Additions	-
<u>Deductions</u>	
Other Operating Expenses	-
Total Deductions	-
Change in Net Assets	-
Net Assets Beginning of Year	307
Net Assets End of Year	\$ 307

See the accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 1 -- DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Hardin Northern Local School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District was established in 1952. The School District serves an area of approximately eighty-eight miles. It is located in Hardin and Hancock Counties and includes all of Blanchard and Washington Townships and portions of Pleasant, Cessna, Van Buren and Jackson Townships. It is staffed by forty certificated employees and nineteen non-certificated personnel who provide services to four hundred ninety students and other community members. Local school districts are supervised by the county board of education, a separate entity.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials 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 operation, food service, and student related activities of the School District.

Component units are legally separate organizations for 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; 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. Components units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. There are no component units of the School District.

The School District participates in six jointly governed organizations and three 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., West Central Ohio Special Education Regional Resource Center, Ohio Association of School Business Officials 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 18, 19, and 20 to the basic financial statements.

**NOTE 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 its governmental funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation (Continued)**

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

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

**Major Governmental Funds**

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

The Ohio School Facilities Commission Local Share Fund accounts for the renovation and construction of new school improvements.



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting (Continued)**

**Non-Major Governmental Funds**

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust, which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to students for activities they have participated in.

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases and decreases in net assets.

**Fund Financial Statements** All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures and Changes in Fund Balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government activities and governmental funds.

The private purpose trust is reported using the economic resources measurement focus.

**D. Basis of Accounting**

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

**Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 thirty days of fiscal year-end.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting (Continued)**

**Revenues (Continued)**

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used of 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are meant are also recorded as deferred revenue.

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

**Expenses/Expenditures**

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

**E. Budgetary Process**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

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

**F. Cash and Investments**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2011, investments were limited to nonnegotiable certificates of deposit, savings accounts, money markets, Federal National Mortgage Association Securities, Federal Home Loan Ban Securities and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase is reported at cost or amortized cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. 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, 2011.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$723.

For presentation on the financial statements, 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 are not purchased from the pool are reported as investments.

**G. Restricted Cash and Cash Equivalent Assets**

Restricted assets in the General Fund represent cash and cash equivalents set aside to establish budget stabilization, capital maintenance, and textbook reserves. The budget reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. The capital maintenance reserve is required to be spent only on capital expenditures to maintain school property and equipment. The textbook reserve is required to be spent only on textbooks for the School District. At fiscal year end, restricted assets totaled \$174,589.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Inventories**

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

On the fund financial statements, inventories are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventories consist of donated food and purchased food and are expensed when used.

**J. Capital Assets**

General capital assets are those assets generally resulting from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500 dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15
Buildings and Improvements	40
Furniture and Equipment	10
Vehicles	10

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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 vested employees.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Accrued Liabilities and Long-Term Obligations**

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within thirty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable:* The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amounts of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

*Restricted:* Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed:* The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned:* Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

*Unassigned:* Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Fund Balance (Continued)**

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**N. Net Assets**

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

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

**O. Fund Balances 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 balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, textbooks and budget stabilization in the governmental funds. The principal amount of the private purpose trust endowments is reserved in the fiduciary funds.

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, capital maintenance, and textbooks represents money required to be set-aside by statute to protect against cyclical changes in revenue and expenditures.

**P. Interfund Transactions**

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

**Q. Estimates**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2011.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 -- BUDGETARY BASIS OF ACCOUNTING**

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

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

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

Net Change in Fund Balance:	<u>General</u>
Budget Basis	\$ 148,424
Adjustments:	
Revenue:	
Net Adjustment for Revenue Accruals	73,582
Expenditure accruals	
Net Adjustment for Expenditure Accruals	60,000
GAAP Basis	<u>\$ 282,006</u>

**NOTE 4 -- DEPOSITS AND INVESTMENTS**

Statutes require the classification of monies held by the School District into three categories:

Active Deposits are those monies required to be kept in a "cash" or "near-cash" status for immediate use by the School District. Such monies must by law be maintained either as cash in the School District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

Inactive Deposits are those monies not required for use within the current five-year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits 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.

Protection of the 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 money deposited with the institution.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 -- DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (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 mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

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 Hardin Northern Local 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.

**Deposits**

At fiscal year end June 30, 2011, the carrying amount of the School District's deposits was \$491,602 and the bank balance was \$578,945. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2011, \$578,945 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the School District will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 4 -- DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

As of June 30, 2011, the School District's investments total \$2,698,185 and consisted of the following:

Investments	Fair Value	Percent	Investment Maturities		
			Less than 1 to 6 months	From 7 to 12 months	From 13 to 18 months
Fifth Third Inst Govt Money Market	\$ 269,920	10.00%	\$ 269,920	\$ -	\$ -
STAROHIO	2,428,265	90.00%	2,428,265	-	-
	<u>\$ 2,698,185</u>	<u>100.00%</u>	<u>\$ 2,698,185</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The School District's investments were rated AAA by Standard & Poor's.

*Concentration of Credit Risk:* The School District places no limit on the amount that may be invested in any one issuer.

**NOTE 5 -- 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 and public utility property located in the School District. Real and public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes for 2011 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 property taxes for 2011 were levied after April 1, 2011, on the assessed values as of December 31, 2010, 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.

The School District receives property taxes from Hardin and Hancock Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2011, are available to finance fiscal year 2012 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 and public utility property which were measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2011 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 5 -- PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2011 taxes were collected are:

	<u>2011 First</u>		<u>2010 Second</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential/Commercial	\$ 48,282,770	95.44%	\$ 47,879,360	95.51%
Public Utility	2,304,400	4.56%	2,163,520	4.32%
Tangible Personal Property	-	0.00%	89,450	1.32%
<b>Total Assessed Value</b>	<b><u>\$ 50,587,170</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 50,132,330</u></b>	<b><u>100.00%</u></b>
Tax Rate per \$1,000 of assessed valuation	\$ 43.25		\$ 43.25	

**NOTE 6 -- INCOME TAX**

The School District levies a voted tax of 1¾% 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 -- RECEIVABLES**

Receivables at June 30, 2011, consisted of taxes, interest, and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
<u>Governmental Activities:</u>	
School Income Taxes	\$ 437,186
Total Income Taxes Receivable	<u>437,186</u>
<u>Property Taxes:</u>	
General:	
Current	825,000
Delinquent	<u>52,200</u>
Total General Fund	<u>877,200</u>
Debt Service:	
Current	190,700
Delinquent	<u>11,462</u>
Total Debt Service	<u>202,162</u>
Permanent Improvement:	
Current	68,500
Delinquent	<u>6,050</u>
Total Permanent Improvement	<u>74,550</u>
Ohio State Classroom Facilities:	
Current	18,000
Delinquent	<u>1,078</u>
Total Ohio Classroom Facilities	<u>19,078</u>
Total Property Tax Receivable	<u>\$1,172,990</u>
<u>Intergovernmental:</u>	
High Schools that Work	4,147
Rest Grant Fed from State	157,604
REAP	5,054
Title I	<u>23,964</u>
Total Intergovernmental Receivables	<u>190,769</u>
Accrued Interest Receivable	<u>52</u>
Total Accrued Interest Receivable	<u>52</u>
Total Governmental Activities	<u>\$1,800,997</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 -- CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
<b>Governmental Activities</b>				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Land Improvements	207,668	33,631	-	241,299
Buildings and Improvements	10,210,278	5,800,832	-	16,011,110
Furniture and Equipment	1,546,645	30,114	-	1,576,759
Vehicles	601,125	-	-	601,125
Totals at Historical Cost	<u>\$ 12,585,716</u>	<u>\$ 5,864,577</u>	<u>\$ -</u>	<u>\$ 18,450,293</u>
Less Accumulated Depreciation:				
Land Improvements	\$ 135,248	\$ 16,087	\$ -	\$ 151,335
Buildings and Improvements	1,658,668	225,388	-	1,884,056
Furniture and Equipment	1,296,642	67,993	-	1,364,635
Vehicles	493,215	20,126	-	513,341
Total Accumulated Depreciation	<u>3,583,773</u>	<u>329,594</u>	<u>-</u>	<u>3,913,367</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 9,001,943</u>	<u>\$ 5,534,983</u>	<u>\$ -</u>	<u>\$ 14,536,926</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 7,218
Vocational		339
Support Service:		
Administration		243
Fiscal		480
Operation and Maintenance		4,715
Operation of Non-Instructional		1,241
Extracurricular Activities		1,495
Facilities Acquisition and Construction		<u>313,863</u>
Total Depreciation Expense		<u>\$ 329,594</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 9 -- RESTRICTED ASSETS**

The following amounts, which are reflected on the Statement of Net Assets, are restricted for various purposes:

**Assets:**

Equity in Pooled Cash and Cash Equivalents:

General Fund:	
BWC Refunds	\$ 17,316
Reserved for Textbooks	<u>157,273</u>
Total Governmental Activities Restricted Assets	<u>\$ 174,589</u>

**NOTE 10 -- INTERFUND TRANSFERS**

Interfund transfers during fiscal year 2011 consisted of the following individual funds:

<u>Fund:</u>	<u>Transfers Out</u>	<u>Transfer In</u>
General	\$ 27,800	\$ -
Non-Major Funds:		
Athletic	-	10,000
Food Service	-	<u>17,800</u>
<b>TOTALS</b>	<u>\$ 27,800</u>	<u>\$ 27,800</u>

**NOTE 11 -- RISK MANAGEMENT**

**A. Insurance Coverage**

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 2011, the School District contracted with the Schools of Risk Sharing Authority for the following insurance coverage.

Buildings and Contents - replacement cost (\$250 deductible)	\$12,712,648
General Liability:	
Per Occurrence	6,000,000
Aggregate	8,000,000
Vehicle Liability	6,000,000
Uninsured Motorist	1,000,000
Public Employee Dishonesty	100,000

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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 -- RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2011, the School District participated in the Ohio Association of School Business Officials 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 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.

**NOTE 12 -- DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to State Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 State Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohser.org](http://www.ohser.org) under *Forms and Publications*.

For the fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocated the current employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending 2010, it was determined the employer contribution rate to the pension and death benefits to be 11.81%. The remaining 2.19% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The School District's required contribution for pension obligations to SERS for the fiscal year June 30, 2011, 2010 and 2009 was \$95,007, \$61,568 and \$55,467.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
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**NOTE 12 -- DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement Systems**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**Combined Plan Benefits** – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
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**NOTE 12 -- DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement Systems (Continued)**

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or a lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65 once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School District's required contribution for pension obligations for the fiscal years 2011, 2010, and 2009 was \$298,486, \$295,304 and \$268,503; 84.4 percent has been contributed for fiscal year June 30, 2011 and 100.0 has been contributed for fiscal year 2010 and 2009. \$46,466 represents the unpaid contribution for fiscal year 2011. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2010 Comprehensive Annual Financial Report will be available after December 31, 2010. Additional information or copies of STRS Ohio's 2010 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
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**NOTE 13 -- POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

**Medicare Part B Plan**

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the less of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was .76%. The School District contributions for the years ended June 30, 2011, 2010, and 2009 were \$4,443, \$4,296 and \$3,728. 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

**Health Care Plan**

ORS 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORS provides the authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105 (e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the fiscal year ended June 30, 2010, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$9,691, \$41,042 and \$37,043, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800)878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under **Employers/Audit Resources**.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 13 -- POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System**

STRS Ohio administers a pension plan that is comprised of a Defined Benefit, a self-directed Defined Contribution, and a Combined Plan that is a hybrid of Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to the 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care cost in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate establish under Ohio Law. The School District contributions for the fiscal years ended June 30, 2011, 2010, and 2009 were \$22,960, \$22,716, and \$20,219. 84.4 percent has been contributed for the fiscal year 2011 and 100 percent has been contributed for the fiscal years 2010 and 2009.

**NOTE 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.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System/State Teachers Retirement System. As of June 30, 2011, 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**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 15 -- LONG-TERM LIABILITIES**

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 06/30/10	Additions	Reductions	Principal Outstanding 06/30/11	Due Within One Year
Governmental Activities:					
School Improvement Bond, 4.46%					
Matures 12/1/2036	\$ 3,470,000	\$ -	\$ 60,000	\$ 3,410,000	\$ 65,000
Capital Lease Payable, 5.625%					
Matures 6/1/2029	923,180	-	28,179	895,001	29,785
Compensated Absences	119,645	-	5,953	113,692	7,600
<b>Total Long-Term Liabilities</b>	<b>\$ 4,512,825</b>	<b>\$ -</b>	<b>\$ 94,132</b>	<b>\$ 4,418,693</b>	<b>\$ 102,385</b>

In December 2007, the School District issued a general obligation School Improvement Bond Anticipation Note for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program, together with other improvements to school facilities, equipment, furnishings, site improvement, and all necessary appurtenances. The note was paid off by the issuance of a School Improvement Bond. The bond was issued on February 26, 2009 at a rate of 4.46% and will mature on December 1, 2036.

In July 2009, the School District issued a Capital Lease Purchase Agreement with U.S. Bank National Association in the amount of \$950,000 for construction and improvements to school facilities including earth works, paving, landscaping, site improvements, equipment and furnishings. The initial term of the lease is from July 1, 2010 to June 30, 2011 with one year renewal terms until June 1, 2029.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$1,257,876 with an unvoted debt margin of \$50,587 at June 30, 2011.

The following is a summary of the School District's future annual debt service requirements for long-term debt:

	School Improvement Bonds, Series 2008		Capital Lease Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	65,000	150,637	29,785	49,939	94,785	200,576
2013	65,000	147,738	31,485	48,241	96,485	195,979
2014	70,000	144,727	33,281	46,445	103,281	191,172
2015	75,000	141,494	35,180	44,546	110,180	186,040
2016	80,000	138,038	37,186	42,540	117,186	180,578
2017-2021	475,000	630,530	220,271	178,357	695,271	808,887
2022-2026	610,000	510,222	290,681	107,948	900,681	618,170
2027-2031	760,000	357,467	217,132	21,884	977,132	379,351
2032-2036	960,000	167,252	-	-	960,000	167,252
2036-2037	250,000	5,575	-	-	250,000	5,575
	<b>\$ 3,410,000</b>	<b>\$ 2,393,680</b>	<b>\$ 895,001</b>	<b>\$ 539,900</b>	<b>\$ 4,305,001</b>	<b>\$ 2,933,580</b>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 16 -- FUND BALANCES**

Fund Balances	General Fund	OSFC Local Share Fund	Nonmajor Governmental Funds	Total
<b><i>Nonspendable:</i></b>				
Inventory	\$ -	\$ -	\$ 1,457	\$ 1,457
Prepaid Items	42,621	-	8,499	51,120
<b><i>Total Nonspendable</i></b>	<b>42,621</b>	<b>-</b>	<b>9,956</b>	<b>52,577</b>
<b><i>Restricted for:</i></b>				
Athletics and Music	-	-	11,790	11,790
Teacher Development	-	-	1,600	1,600
Reading K-3	-	-	12,447	12,447
Special Education	-	-	14,002	14,002
Principals	-	-	2,204	2,204
Capital Maintenance	-	-	107,005	107,005
BWC Refunds	17,316	-	-	17,316
Textbooks	157,273	-	-	157,273
Debt Service Payments	-	-	145,903	145,903
Taxes Unappropriated	142,626	-	-	142,626
Capital Improvements	-	176,054	327,066	503,120
<b><i>Total Restricted</i></b>	<b>317,215</b>	<b>176,054</b>	<b>622,017</b>	<b>1,115,286</b>
<b><i>Assigned to:</i></b>				
Other Purposes	51,576	-	-	51,576
<b><i>Total Assigned</i></b>	<b>51,576</b>	<b>-</b>	<b>-</b>	<b>51,576</b>
<b><i>Unassigned (Deficit)</i></b>	<b>2,082,830</b>	<b>-</b>	<b>(76,952)</b>	<b>2,005,878</b>
<b><i>Total Fund Balances</i></b>	<b>\$ 2,494,242</b>	<b>\$ 176,054</b>	<b>\$ 555,021</b>	<b>\$ 3,225,317</b>

**NOTE 17 -- SET ASIDES**

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 addition, the School District was also required to set aside money for budget stabilization. For fiscal year 2011, 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 -- SET ASIDES (Continued)**

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 2011:

	<b>Textbook Reserve</b>	<b>Capital Maintenance Reserve</b>	<b>Bureau of Workers Compensation Refunds</b>	<b>Total</b>
Balance, June 30, 2010	\$ 146,927	\$ -	\$ 17,316	\$ 164,243
Required Set-Aside	78,986	78,986	-	157,972
Qualifying Expenditures	<u>(68,640)</u>	<u>(78,986)</u>	<u>-</u>	<u>(147,626)</u>
Balance, June 30, 2011	<u>\$ 157,273</u>	<u>\$ -</u>	<u>\$ 17,316</u>	<u>\$ 174,589</u>
Amount Carried Forward to Fiscal Year 2012				\$ 174,589

Effective July 1, 2011, House Bill 30, the "Unfunded Mandates Relief Act", eliminates the requirement that school districts annually set aside an amount per pupil into a textbook and instructional materials fund.

The School District had qualifying disbursements that reduced the capital improvements set-aside amount below zero. This excess may not be carried forward to offset future year set-aside requirements. The School District also had prior year capital expenditures from bond and note proceeds that may be used to offset future set-aside requirements, if needed.

**NOTE 18 -- 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, Champaign, 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. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Education Service Center, two superintendents from each county that is represented, one treasurer representative from the School Districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. 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**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 18 -- 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.

**F. West Central Ohio Special Education Regional Resource Center**

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of fifty-two members made up of the fifty superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 19 -- INSURANCE POOLS**

**A. Ohio Association of School Business Official's 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 Association of School Business Official's Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Official's (OASBO) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a four member Board of Directors consisting of the President, Vice-President, the President-Elect, and the Immediate Past President of the OASBO. The Executive Director of the OASBO, 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, Director, 9525 Township Road 50, Dola, Ohio 45835.

**NOTE 20 -- 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, Clerk/Treasurer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

**NOTE 21 -- 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 currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 22 -- COMMITMENTS**

The District's encumbrance policy is for fiscal year end individual encumbrances exceeding \$100 to be considered significant encumbrances. All encumbrances are classified as either Assigned Fund Balance or Restricted Fund Balance in the General Fund, or as Restricted Fund Balance in the non-general funds.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 22 – COMMITMENTS (Continued)**

**A. Encumbrances**

Significant encumbrances as of June 30<sup>th</sup> were:

<u>Fund</u>	<u>Assigned</u>	<u>Restricted</u>	<u>Total</u>
Major Governmental Funds:			
General	\$ 51,576	\$ -	\$ 51,576
Non-major Governmental Funds	-	99,740	99,740
	<u>\$ 51,576</u>	<u>\$ 99,740</u>	<u>\$ 151,316</u>

**NOTE 23 -- CONTINGENT LIABILITIES**

**A. Grants**

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on the overall financial position of the School District at June 30, 2011.

**B. Litigation**

The School District is involved in no material litigation as either plaintiff or defendant.

**NOTE 24 -- CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance but only the classification of fund balance on the School District's financial statements.

**NOTE 25 -- FUND DEFICITS**

Fund balances at June 30, 2011, included the following individual fund deficits:

Special Revenue Funds:	
Food Service Operation	\$ 10,597
High Schools that Work	1,318
IDEA	17,664
SFSP	14,355
Title I	2,382
Title IIA	285
REAP	6,348

The special revenue funds' deficit balances resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.



***Perry & Associates***  
Certified Public Accountants, A.C.

[www.perrycpas.com](http://www.perrycpas.com)

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056  
(740) 373-2402 Fax

PARKERSBURG  
1035 Murdoch Avenue  
Parkersburg, WV 26101  
(304) 422-2203  
(304) 428-5587 Fax

ST. CLAIRSVILLE  
121 E. Main Street  
St. Clairsville, OH 43950  
(740) 695-1569  
(740) 695-5775 Fax

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

December 20, 2012

Hardin Northern Local School District  
Hardin County  
11589 St. Rt. 81  
Dola, Ohio 45835

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Hardin Northern Local School District**, Hardin County, Ohio (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents, and have issued our report dated December 20, 2012 wherein the School District has adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, and others within the School District. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

**Perry and Associates**  
Certified Public Accountants, A.C.

***Perry & Associates***  
Certified Public Accountants, A.C.

[www.perrycpas.com](http://www.perrycpas.com)

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056  
(740) 373-2402 Fax

PARKERSBURG  
1035 Murdoch Avenue  
Parkersburg, WV 26101  
(304) 422-2203  
(304) 428-5587 Fax

ST. CLAIRSVILLE  
121 E. Main Street  
St. Clairsville, OH 43950  
(740) 695-1569  
(740) 695-5775 Fax

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

December 20, 2012

Hardin Northern Local School District  
Hardin County  
11589 St. Rt. 81  
Dola, Ohio 45835

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the **Hardin Northern Local School District**, Hardin County (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School District amended its anti-harassment policy at its meeting on June 24, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Respectfully Submitted,



**Perry and Associates**  
Certified Public Accountants, A.C.

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# Dave Yost • Auditor of State

**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  
FEBRUARY 26, 2013**