



**Auditor of State
Betty Montgomery**

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Northmor Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Northmor Local School District, Morrow County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 17, 2003

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NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2003

| | Governmental Fund Types | | | Proprietary Fund Type |
|---|----------------------------|--------------------------|-------------------------|--------------------------|
| | General | Special Revenue | Capital Projects | Enterprise |
| ASSETS AND OTHER DEBITS | | | | |
| ASSETS: | | | | |
| Equity in pooled cash and cash equivalents | \$ 59,826 | \$ 163,285 | \$ 15,638 | \$ 123 |
| Receivables (net of allowances of uncollectibles): | | | | |
| Taxes - current & delinquent | 3,732,965 | - | - | - |
| Accrued interest | 132 | - | - | - |
| Interfund loan receivable | 19,600 | - | - | - |
| Advances to other funds | 300 | - | - | - |
| Due from other governments | - | 287,207 | - | 2,458 |
| Materials and supplies inventory | 4,092 | - | - | 2,100 |
| Prepayments | 37,054 | - | - | - |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 33,101 | - | - | - |
| Property, plant and equipment (net of accumulated depreciation where applicable) | - | - | - | 8,442 |
| OTHER DEBITS: | | | | |
| Amount to be provided for retirement of general long-term obligations | - | - | - | - |
| Total assets and other debits | <u>\$ 3,887,070</u> | <u>\$ 450,492</u> | <u>\$ 15,638</u> | <u>\$ 13,123</u> |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 195 | \$ 21,821 | \$ - | \$ - |
| Contracts payable | - | 84,000 | - | - |
| Accrued wages and benefits | 635,225 | 55,304 | - | 22,048 |
| Compensated absences payable | 2,878 | - | - | 17,974 |
| Pension obligation payable | 111,739 | 6,966 | - | 11,071 |
| Interfund loan payable | - | 11,000 | - | 8,600 |
| Deferred revenue | 2,923,203 | 260,827 | - | - |
| Due to other governments | 24,943 | 2,461 | - | 664 |
| Advances from other funds | - | - | - | 300 |
| Due to students | - | - | - | - |
| Total liabilities | <u>3,698,183</u> | <u>442,379</u> | <u>-</u> | <u>60,657</u> |
| EQUITY AND OTHER CREDITS: | | | | |
| Investment in general fixed assets | - | - | - | - |
| Contributed capital | - | - | - | 3,900 |
| Retained earnings (accumulated deficit): unreserved | - | - | - | (51,434) |
| Fund balances: | | | | |
| Reserved for encumbrances | 3,597 | 2,254 | - | - |
| Reserved for materials and supplies inventory | 4,092 | - | - | - |
| Reserved for prepayments | 37,054 | - | - | - |
| Reserved for advances | 300 | - | - | - |
| Reserved for tax revenue unavailable for appropriation | 417,993 | - | - | - |
| Reserved for school bus purchases | 33,101 | - | - | - |
| Unreserved-undesignated | (307,250) | 5,859 | 15,638 | - |
| Total equity and other credits | <u>188,887</u> | <u>8,113</u> | <u>15,638</u> | <u>(47,534)</u> |
| Total liabilities, equity and other credits | <u>\$ 3,887,070</u> | <u>\$ 450,492</u> | <u>\$ 15,638</u> | <u>\$ 13,123</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

| Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|-------------------------|----------------------------|-------------------------------------|-------------------------------|
| | General Fixed Assets | General Long-Term Obligations | |
| Trust and Agency | | | |
| \$ 27,066 | \$ - | \$ - | \$ 265,938 |
| - | - | - | 3,732,965 |
| - | - | - | 132 |
| - | - | - | 19,600 |
| - | - | - | 300 |
| - | - | - | 289,665 |
| - | - | - | 6,192 |
| - | - | - | 37,054 |
| - | - | - | 33,101 |
| - | 5,709,946 | - | 5,718,388 |
| - | - | 741,736 | 741,736 |
| <u>\$ 27,066</u> | <u>\$ 5,709,946</u> | <u>\$ 741,736</u> | <u>\$ 10,845,071</u> |
| \$ - | \$ - | \$ - | \$ 22,016 |
| - | - | - | 84,000 |
| - | - | - | 712,577 |
| - | - | 685,922 | 706,774 |
| - | - | 55,814 | 185,590 |
| - | - | - | 19,600 |
| - | - | - | 3,184,030 |
| - | - | - | 28,068 |
| - | - | - | 300 |
| <u>22,937</u> | <u>-</u> | <u>-</u> | <u>22,937</u> |
| <u>22,937</u> | <u>-</u> | <u>741,736</u> | <u>4,965,892</u> |
| - | 5,709,946 | - | 5,709,946 |
| - | - | - | 3,900 |
| - | - | - | (51,434) |
| - | - | - | 5,851 |
| - | - | - | 4,092 |
| - | - | - | 37,054 |
| - | - | - | 300 |
| - | - | - | 417,993 |
| - | - | - | 33,101 |
| <u>4,129</u> | <u>-</u> | <u>-</u> | <u>(281,624)</u> |
| <u>4,129</u> | <u>5,709,946</u> | <u>-</u> | <u>5,879,179</u> |
| <u>\$ 27,066</u> | <u>\$ 5,709,946</u> | <u>\$ 741,736</u> | <u>\$ 10,845,071</u> |

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | Governmental Fund Types | | | Fiduciary Fund Type | Total (Memorandum Only) |
|--|-------------------------|--------------------|---------------------|------------------------|-------------------------------|
| | General | Special Revenue | Capital Projects | Expendable Trust | |
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | \$ 3,092,042 | \$ - | \$ - | \$ - | \$ 3,092,042 |
| Earnings on investments | 10,580 | - | - | - | 10,580 |
| Extracurricular | - | 72,531 | - | - | 72,531 |
| Other local revenues | 62,625 | 3,000 | - | - | 65,625 |
| Intergovernmental - State | 4,762,421 | 65,602 | - | - | 4,828,023 |
| Intergovernmental - Federal | - | 453,768 | - | - | 453,768 |
| | <u>7,927,668</u> | <u>594,901</u> | <u>-</u> | <u>-</u> | <u>8,522,569</u> |
| Total revenue | | | | | |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 3,797,606 | 152,884 | 853 | - | 3,951,343 |
| Special | 608,136 | 413,842 | - | - | 1,021,978 |
| Vocational | 198,956 | - | - | - | 198,956 |
| Other | 118,325 | - | - | - | 118,325 |
| Support services: | | | | | |
| Pupil | 207,588 | 20,297 | - | - | 227,885 |
| Instructional staff | 566,470 | 3,506 | - | - | 569,976 |
| Board of Education | 19,771 | - | - | - | 19,771 |
| Administration | 809,710 | 1,066 | - | - | 810,776 |
| Fiscal | 201,917 | 9,253 | - | - | 211,170 |
| Operations and maintenance | 752,202 | 143,500 | - | - | 895,702 |
| Pupil transportation | 496,567 | - | - | - | 496,567 |
| Central | - | 19,207 | - | - | 19,207 |
| Extracurricular activities | 448,626 | 63,507 | - | 800 | 512,933 |
| | <u>8,225,874</u> | <u>827,062</u> | <u>853</u> | <u>800</u> | <u>9,054,589</u> |
| Total expenditures | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>(298,206)</u> | <u>(232,161)</u> | <u>(853)</u> | <u>(800)</u> | <u>(532,020)</u> |
| Other financing sources (uses): | | | | | |
| Proceeds from sale of fixed assets | 12,216 | - | - | - | 12,216 |
| Operating transfers out | <u>(27,900)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(27,900)</u> |
| Total other financing sources (uses) | <u>(15,684)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(15,684)</u> |
| Excess (deficiency) of revenues over (under) expenditures and other financing (uses) | <u>(313,890)</u> | <u>(232,161)</u> | <u>(853)</u> | <u>(800)</u> | <u>(547,704)</u> |
| Fund balances, July 1 | 504,383 | 240,274 | 16,491 | 4,929 | 766,077 |
| Decrease in reserve for inventory | <u>(1,606)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,606)</u> |
| Fund balances, June 30 | <u>\$ 188,887</u> | <u>\$ 8,113</u> | <u>\$ 15,638</u> | <u>\$ 4,129</u> | <u>\$ 216,767</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | General | | | Special Revenue | | |
|--|-------------------|------------------|---|-------------------|-------------------|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes | \$ 3,105,720 | \$ 3,049,957 | \$ (55,763) | \$ - | \$ - | \$ - |
| Earnings on investments | 12,000 | 11,452 | (548) | 477 | - | (477) |
| Extracurricular | - | - | - | 79,062 | 72,282 | (6,780) |
| Other local revenues | 51,108 | 53,545 | 2,437 | 3,500 | 3,000 | (500) |
| Intergovernmental - State | 4,857,618 | 4,762,421 | (95,197) | 65,602 | 65,602 | - |
| Intergovernmental - Federal | - | - | - | 501,209 | 442,943 | (58,266) |
| Total revenues | <u>8,026,446</u> | <u>7,877,375</u> | <u>(149,071)</u> | <u>649,850</u> | <u>583,827</u> | <u>(66,023)</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 3,911,110 | 3,784,419 | 126,691 | 244,318 | 154,676 | 89,642 |
| Special | 584,824 | 609,654 | (24,830) | 434,185 | 391,791 | 42,394 |
| Vocational | 189,930 | 197,678 | (7,748) | - | - | - |
| Other | 114,062 | 118,325 | (4,263) | - | - | - |
| Support services: | | | | | | |
| Pupil | 199,004 | 205,210 | (6,206) | 30,742 | 20,632 | 10,110 |
| Instructional staff | 582,667 | 571,017 | 11,650 | - | 3,500 | (3,500) |
| Board of Education | 20,933 | 19,850 | 1,083 | - | - | - |
| Administration | 816,586 | 811,571 | 5,015 | - | 1,066 | (1,066) |
| Fiscal | 201,635 | 203,269 | (1,634) | 10,000 | 8,461 | 1,539 |
| Operations and maintenance | 741,943 | 764,548 | (22,605) | 59,500 | 59,500 | - |
| Pupil transportation | 491,652 | 513,121 | (21,469) | - | - | - |
| Extracurricular activities | 449,208 | 449,263 | (55) | 73,000 | 63,965 | 9,035 |
| Total expenditures | <u>8,303,554</u> | <u>8,247,925</u> | <u>55,629</u> | <u>851,745</u> | <u>703,591</u> | <u>148,154</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(277,108)</u> | <u>(370,550)</u> | <u>(93,442)</u> | <u>(201,895)</u> | <u>(119,764)</u> | <u>82,131</u> |
| Other financing sources (uses): | | | | | | |
| Refund of prior year's expenditures | 9,000 | 9,241 | 241 | 250 | 250 | - |
| Proceeds from sale of fixed assets | 12,216 | 12,216 | - | - | - | - |
| Advances in | - | 25,150 | 25,150 | - | 35,300 | 35,300 |
| Advances out | (45,000) | (44,750) | 250 | - | (24,300) | (24,300) |
| Operating transfers in | - | 76,836 | 76,836 | - | - | - |
| Operating transfers out | (45,000) | (104,736) | (59,736) | - | - | - |
| Total other financing sources (uses) | <u>(68,784)</u> | <u>(26,043)</u> | <u>42,741</u> | <u>250</u> | <u>11,250</u> | <u>11,000</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | <u>(345,892)</u> | <u>(396,593)</u> | <u>(50,701)</u> | <u>(201,645)</u> | <u>(108,514)</u> | <u>93,131</u> |
| Fund balances, July 1 | 469,360 | 469,360 | - | 260,602 | 260,602 | - |
| Prior year encumbrances appropriated | <u>16,368</u> | <u>16,368</u> | <u>-</u> | <u>8,485</u> | <u>8,485</u> | <u>-</u> |
| Fund balances, June 30 | <u>\$ 139,836</u> | <u>\$ 89,135</u> | <u>\$ (50,701)</u> | <u>\$ 67,442</u> | <u>\$ 160,573</u> | <u>\$ 93,131</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

| Capital Projects | | | Total (Memorandum only) | | |
|------------------|------------------|-----------------------------------|-------------------------|-------------------|-----------------------------------|
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| \$ - | \$ - | \$ - | \$ 3,105,720 | \$ 3,049,957 | \$ (55,763) |
| - | - | - | 12,477 | 11,452 | (1,025) |
| - | - | - | 79,062 | 72,282 | (6,780) |
| - | - | - | 54,608 | 56,545 | 1,937 |
| 500 | - | (500) | 4,923,720 | 4,828,023 | (95,697) |
| - | - | - | 501,209 | 442,943 | (58,266) |
| <u>500</u> | <u>-</u> | <u>(500)</u> | <u>8,676,796</u> | <u>8,461,202</u> | <u>(215,594)</u> |
| 936 | 853 | 83 | 4,156,364 | 3,939,948 | 216,416 |
| - | - | - | 1,019,009 | 1,001,445 | 17,564 |
| - | - | - | 189,930 | 197,678 | (7,748) |
| - | - | - | 114,062 | 118,325 | (4,263) |
| - | - | - | 229,746 | 225,842 | 3,904 |
| - | - | - | 582,667 | 574,517 | 8,150 |
| - | - | - | 20,933 | 19,850 | 1,083 |
| - | - | - | 816,586 | 812,637 | 3,949 |
| - | - | - | 211,635 | 211,730 | (95) |
| - | - | - | 801,443 | 824,048 | (22,605) |
| - | - | - | 491,652 | 513,121 | (21,469) |
| - | - | - | 522,208 | 513,228 | 8,980 |
| <u>936</u> | <u>853</u> | <u>83</u> | <u>9,156,235</u> | <u>8,952,369</u> | <u>203,866</u> |
| <u>(436)</u> | <u>(853)</u> | <u>(417)</u> | <u>(479,439)</u> | <u>(491,167)</u> | <u>(11,728)</u> |
| - | - | - | 9,250 | 9,491 | 241 |
| - | - | - | 12,216 | 12,216 | - |
| - | - | - | - | 60,450 | 60,450 |
| - | - | - | (45,000) | (69,050) | (24,050) |
| - | - | - | - | 76,836 | 76,836 |
| - | - | - | (45,000) | (104,736) | (59,736) |
| - | - | - | (68,534) | (14,793) | 53,741 |
| (436) | (853) | (417) | (547,973) | (505,960) | 42,013 |
| 16,491 | 16,491 | - | 746,453 | 746,453 | - |
| - | - | - | 24,853 | 24,853 | - |
| <u>\$ 16,055</u> | <u>\$ 15,638</u> | <u>\$ (417)</u> | <u>\$ 223,333</u> | <u>\$ 265,346</u> | <u>\$ 42,013</u> |

NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS (ACCUMULATED DEFICIT)
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | Proprietary Fund Type |
|---|--------------------------|
| | Enterprise |
| Operating revenues: | |
| Sales/charges for services | \$ 212,629 |
| Total operating revenues | 212,629 |
| Operating expenses: | |
| Personal services | 200,928 |
| Contract services | 20,788 |
| Materials and supplies | 157,691 |
| Depreciation | 1,505 |
| Total operating expenses | 380,912 |
| Operating loss | (168,283) |
| Nonoperating revenues: | |
| Operating grants | 90,867 |
| Federal commodities | 28,989 |
| Total nonoperating revenues | 119,856 |
| Net loss before operating transfers | (48,427) |
| Operating transfers in | 27,900 |
| Net loss | (20,527) |
| Retained earnings (accumulated deficit), July 1 | (30,907) |
| Retained earnings (accumulated deficit), June 30. | \$ (51,434) |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | | Proprietary Fund Type |
|--|----|--------------------------|
| | | Enterprise |
| Cash flows from operating activities: | | |
| Cash received from sales/service charges | \$ | 212,629 |
| Cash payments for personal services | | (224,647) |
| Cash payments for contract services. | | (1,029) |
| Cash payments for materials and supplies | | (124,280) |
| Net cash used in operating activities | | (137,327) |
| Cash flows from noncapital financing activities: | | |
| Cash received from operating grants. | | 99,879 |
| Advances in from other funds | | 9,450 |
| Advances out to other funds | | (850) |
| Transfers in from other funds | | 27,900 |
| Net cash provided by noncapital financing activities. | | 136,379 |
| Net decrease in cash and cash equivalents | | (948) |
| Cash and cash equivalents at beginning of year | | 1,071 |
| Cash and cash equivalents at end of year. | \$ | 123 |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss. | \$ | (168,283) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | | 1,505 |
| Federal donated commodities | | 28,989 |
| Changes in assets and liabilities: | | |
| Decrease in materials and supplies inventory. | | 4,422 |
| Decrease in prepaids | | 5,759 |
| Decrease in accrued wages and benefits | | (8,102) |
| Increase in due to other governments | | 16 |
| Decrease in compensated absences payable | | (2,169) |
| Increase in pension obligation payable. | | 536 |
| Net cash used in operating activities | \$ | (137,327) |
| Noncash investing, capital and financing activities: | | |
| Federal donated commodities | \$ | 28,989 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Northmor Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 424th largest by total enrollment among the 740 public and community school districts in the state. Average daily membership as of June 30, 2003 was 1,541. The District employed 92 certified employees and 51 non-certified employees.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the "COG")

The COG is a jointly governed organization among 15 school districts and 1 county educational service center. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

The Work Force Preparation Regional Council of Governments

The District participates in a regional council of governments whose purpose is to apply for, administer, and deliver services in member districts pursuant to the Jobs for Ohio's Graduates program and related or similar state and federal programs. Financial information can be obtained from Crystal Starner, Treasurer, Delaware Joint Vocational School District, who serves as fiscal agent, at 1610 State Route 521, Delaware, Ohio 43015.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

RELATED ENTITY

Perry Cook Memorial Library (the "Library")

The District appoints the governing board of the Library, however, the District cannot influence the Library's operation nor does the Library represent a potential financial benefit for or burden on the District. The District serves in a ministerial capacity as taxing authority for the Library. Once the Library Board determines to present a levy to the voters, including the determination of its rate and duration, the District must place the levy on the ballot. The Library may not issue debt. The Library did not receive any funding from the District during 2003.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between the OSP and member schools.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

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

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

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

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

C. Measurement Focus/Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), intergovernmental, and interest. Property taxes measurable as of June 30, 2003 and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2004 operations, have been recorded as deferred revenues, except for that portion which is available from the County Auditor as an advance at June 30. This amount is recognized as revenue.

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

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities received during the year is reported in the operating statement as a revenue and expense.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property or income taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Morrow County Budget Commission for tax rate determination.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

9. Encumbrance accounting is utilized with District funds in the normal course of operations for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types. The District had no encumbrances outstanding for the enterprise funds at fiscal year-end.

E. Cash and Investments

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

During fiscal year 2003, investments were limited to non-negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund. During fiscal year 2003, interest revenue credited to the general fund amounted to \$10,580 which included \$4,998 assigned from other District funds.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds is stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Life (years)</u> |
|-----------------------------------|---------------------|
| Furniture, fixtures and equipment | 7-20 |

G. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

In accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave 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.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

H. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

I. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, advances to other funds, tax advance unavailable for appropriation, and school bus purchases. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

J. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans are reflected as "interfund loans receivable and payable". The District had short-term interfund loans receivable and payable at June 30, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had long-term advances receivable and payable at June 30, 2003.

An analysis of interfund transactions is presented in Note 5.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 18 for details.

L. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants, or contributions from developers, customers, or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. There were no capital contributions received by the enterprise funds in 2003. Contributed capital in the enterprise funds at June 30, 2003 is \$3,900.

M. Estimates

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

N. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at fiscal year-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

O. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

P. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balance/Retained Earnings

Fund balances/retained earnings at June 30, 2003 included the following individual fund deficits:

| | <u>Deficit Balance</u> |
|--------------------------------|------------------------|
| <u>Special Revenue Fund</u> | |
| Disadvantaged Pupil Impact Aid | \$ 146 |
| Title VI-B | 9,738 |
| Title I | 52,351 |
| Remove Barriers to Handicapped | 19,207 |
| | |
| <u>Enterprise Funds</u> | |
| Food Service | 51,254 |
| Uniform School Supplies | 180 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The deficit fund balance in the Disadvantaged Pupil Impact Aid , Title VI-B, Title I, and Remove Barriers to Handicapped special revenue funds is caused by the application of GAAP namely in the reporting of a liability for accounts payable, contract payable, accrued wages, benefits, and pension obligations attributable to the fiscal year. This deficit balance will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

The deficit retained earnings in the Food Service and Uniform School Supplies enterprise funds are caused by the application of GAAP namely in the reporting of a liability for accrued wages, benefits, and pension obligations attributable to the fiscal year. These deficit retained earnings will be eliminated by user charges and other subsidies not recognized and recorded at June 30.

B. Compliance

The following funds had expenditures in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code:

| <u>Fund Type/Fund</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|------------------------------|-----------------------|---------------------|---------------|
| General Fund | \$ 8,393,554 | \$ 8,397,411 | \$ 3,857 |
| <u>Special Revenue Funds</u> | | | |
| Professional Development | 6,712 | 7,125 | \$ 413 |
| Summer School | 6,814 | 7,944 | 1,130 |
| Title I | 292,817 | 318,190 | 25,373 |
| Safe School | 14,158 | 16,009 | 1,851 |
| <u>Enterprise Fund</u> | | | |
| Food Service | 342,293 | 350,807 | \$ 8,314 |
| <u>Expendable Trust Fund</u> | | | |
| Expendable Trust Fund | 400 | 800 | \$ 400 |

**NORTHMOR LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories:

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

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

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

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

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

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

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Cash on Hand: At fiscal year-end, the District had \$200 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits: At year-end, the carrying amount of the District's deposits was \$156,839 and the bank balance was \$365,045. These balances include \$5,290 in certificates of deposit. Of the bank balance:

1. \$114,191 was covered by federal deposit insurance; and
2. \$250,854 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form. The District's only investment was STAR Ohio with a fair value of \$142,000.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|--------------------------|---|--------------------|
| Per GASB Statement No. 9 | \$ 299,039 | \$ - |
| Investment in STAR Ohio | (142,000) | 142,000 |
| Cash on hand | <u>(200)</u> | <u>-</u> |
| Per GASB Statement No. 3 | <u>\$ 156,839</u> | <u>\$142,000</u> |

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2003 consist of the following individual interfund loans receivable and payable:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|-----------------------------|---------------------------------|------------------------------|
| General Fund | \$19,600 | \$ - |
| <u>Special Revenue Fund</u> | | |
| Chapter I | - | 11,000 |
| <u>Enterprise Fund</u> | | |
| Food Service | <u>-</u> | <u>8,600</u> |
| Total | <u>\$19,600</u> | <u>\$19,600</u> |

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. The following is a summarized breakdown of the District's operating transfers for fiscal year 2003:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------|---------------------|----------------------|
| General Fund | \$ - | \$27,900 |
| <u>Enterprise Fund</u> | | |
| Food Service | <u>27,900</u> | <u>-</u> |
| Total | <u>\$27,900</u> | <u>\$27,900</u> |

C. Interfund balances at June 30, 2003 consist of the following long-term advances:

| | <u>Advances to Other Funds</u> | <u>Advances from Other Funds</u> |
|-------------------------|------------------------------------|--------------------------------------|
| General Fund | \$300 | \$ - |
| <u>Enterprise Fund</u> | | |
| Uniform School Supplies | <u>-</u> | <u>300</u> |
| Total | <u>\$300</u> | <u>\$300</u> |

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property taxes attach as a lien and are levied on April 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2003 taxes were collected was \$110,026,600. Rural/residential and public utility/minerals real estate represented \$91,759,140 or 83.40% of this total, commercial and industrial real estate represented \$3,407,160 or 3.09% of this total, public utility tangible represented \$11,409,350 or 10.36% of this total and general tangible property represented \$3,450,950 or 3.15% of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was \$27.40 per \$1,000 of assessed valuation for operations.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Morrow, Marion and Richland County Treasurers collect real estate property taxes on behalf of all taxing districts within the County. The respective County Auditor periodically remits to the District their portion of the taxes collected with final settlement in February and August. Such collections are available to pay current period liabilities. The amount available to be advanced can vary based on the date the tax bills are sent.

The Morrow, Marion and Richland County Treasurers collect personal property taxes on behalf of all taxing districts within the County. The respective County Auditor periodically remits to the District their portion of the taxes collected with final settlement in June and October. Such collections are available to pay current period liabilities.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available for an advance at June 30 is recognized as revenue. \$417,993 was available to the District as an advance at June 30, 2003.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES - (Continued)

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax effective June 2, 1992. This tax is effective indefinitely. School district income tax revenue received by the general fund during fiscal year 2003 was \$902,845.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accrued interest, interfund loans, and intergovernmental grants (to extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

| | <u>Amounts</u> |
|--------------------------------|----------------|
| <u>General Fund</u> | |
| Taxes - current and delinquent | \$3,732,965 |
| Interfund loans | 19,600 |
| Accrued interest | 132 |
| | |
| <u>Special Revenue Funds</u> | |
| Due from other governments | 287,207 |

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - FIXED ASSETS

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

| | <u>Balance</u> <u>July 1, 2002</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>June 30, 2003</u> |
|------------------------|---------------------------------------|------------------|--------------------|--|
| Land/improvements | \$ 255,151 | \$283,932 | \$ - | \$ 539,083 |
| Buildings/improvements | 2,512,059 | - | - | 2,512,059 |
| Furniture/equipment | 1,771,855 | 60,010 | (132,918) | 1,698,947 |
| Vehicles | <u>959,857</u> | <u>-</u> | <u>-</u> | <u>959,857</u> |
| Total | <u>\$5,498,922</u> | <u>\$343,942</u> | <u>(\$132,918)</u> | <u>\$5,709,946</u> |

A summary of the proprietary fixed assets at June 30, 2003 follows:

| | |
|--------------------------------|-----------------|
| Furniture and equipment | \$ 88,420 |
| Less: accumulated depreciation | <u>(79,978)</u> |
| Net fixed assets | <u>\$ 8,442</u> |

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the year ended June 30, 2003, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

| | <u>Balance</u> <u>July 1, 2002</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>June 30, 2003</u> |
|----------------------------|---------------------------------------|------------------|-------------------|--|
| Compensated absences | \$605,784 | \$ 80,138 | \$ - | \$685,922 |
| Pension obligation payable | <u>51,222</u> | <u>55,814</u> | <u>(51,222)</u> | <u>55,814</u> |
| Total | <u>\$657,006</u> | <u>\$135,952</u> | <u>(\$51,222)</u> | <u>\$741,736</u> |

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$9,902,394 and an unvoted debt margin of \$110,027.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components 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. Administrators who are contracted to work 260 days in a year are given five to twenty-five days of vacation per year by contract. Administrators who earn vacation are paid for accumulated unused vacation time upon termination of employment.

Administrators, teachers, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 250 days. Upon retirement, payment is made for 30% of the total sick leave accumulation up to a maximum of seventy-five days.

Compensated absences will be paid from the fund from which the employee is paid.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The 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. During fiscal year 2003, the District retained property insurance coverage, underwritten by Indiana Insurance Company, in the blanket amount of \$17,381,390 with 90% coinsurance, replacement cost endorsement and a \$250 deductible. Boiler and machinery coverage is provided within the property coverage and limits. The District also has inland marine floaters in the amount of \$63,677 with a \$100 deductible for coverage of audio visual equipment, musical instruments and band uniforms.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT - (Continued)

Vehicles are covered by Indiana Insurance Company and hold a \$100 deductible for claims related to collision and other than collision coverage. Automobile liability has a \$1,000,000 combined single limit of liability.

Nationwide Insurance Companies also provide general liability coverage with a \$2,000,000 single occurrence limit, an aggregate limit of \$5,000,000 with no deductible.

Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees in the amount of \$35,000 for certified employees and \$20,000 for classified employees.

The District has elected to provide a comprehensive medical benefits package to the employees through Medical Mutual of Ohio. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. Included in the plan is a prescription drug card with a \$3 per prescription deductible for PCS drugs and a \$5 per prescription deductible for mail-order drugs. The total monthly premium for the medical and prescription drug plan is \$368.81 for single coverage and \$929.39 for family coverage which is paid out of the same fund that pays the salary for the employee. The employee pays 15% of the medical premium, while the District pays the remaining 85% of the medical premium and 100% of the Dental/Vision premium. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations.

The District provides dental coverage for its employees with a \$25 deductible per person, or \$50 deductible for a family. The total monthly premium for this dental coverage is \$27.42 for single and \$70.49 for family coverage.

The District also provides vision coverage for its employees with no deductible coverage. The total monthly premium is \$16.11 for single or family coverage.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT - (Continued)

The above employee portions of premiums for medical, dental and vision insurance are for full-time employees. Employees that are considered part-time are required to pay a percentage of the Board's share of the medical premium related to their work schedule as a percent of a full time work schedule.

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts 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 percentage 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 school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

D. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer, Assistant Treasurer, Superintendent, and Board Members in the amount of \$20,000.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2003.

| | <u>Food Service</u> | <u>Uniform School Supplies</u> | <u>Total</u> |
|--|-------------------------|------------------------------------|--------------|
| Operating revenue | \$ 212,629 | \$ - | \$ 212,629 |
| Operating expense before depreciation | 379,407 | - | 379,407 |
| Depreciation | 1,505 | - | 1,505 |
| Operating loss | (168,283) | - | (168,283) |
| Operating grants | 90,867 | - | 90,867 |
| Federal donated commodities | 28,989 | - | 28,989 |
| Net loss before operating transfer | (48,427) | - | (48,427) |
| Operating Transfers In | 27,900 | - | 27,900 |
| Net loss | (20,527) | - | (20,527) |
| Net working capital | (36,037) | (180) | (36,217) |
| Total assets | 13,003 | 120 | 13,123 |
| Total liabilities | 60,357 | 300 | 60,657 |
| Contributed capital | 3,900 | - | 3,900 |
| Total equity | (47,354) | (180) | (47,534) |

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for pension obligations for the fiscal years ended June 30, 2003, 2002 and 2001 were \$80,325, \$52,298, and \$37,780, respectively; 40% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$47,844, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$527,280, \$368,949, and \$346,085, respectively; 83% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$87,724, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

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 have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. The Board's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$40,560 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$62,277 during the 2003 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

| | Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses | | |
|---|--|----------------------------|-----------------------------|
| | <u>Governmental Fund Types</u> | | |
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> |
| Budget basis | (\$396,593) | (\$108,514) | (\$853) |
| Net adjustment for revenue accruals | 50,293 | 11,074 | - |
| Net adjustment for expenditure accruals | 18,259 | (126,183) | - |
| Net adjustment for other financing sources/(uses) | 10,359 | (11,250) | - |
| Encumbrances (budget basis) | <u>3,792</u> | <u>2,712</u> | <u>-</u> |
| GAAP basis | <u>(\$313,890)</u> | <u>(\$232,161)</u> | <u>(\$853)</u> |

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 17 – CONTINGENCIES – (Continued)

B. Litigation

There is no current litigation pending which would have a material effect on the financial statements.

C. 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”.

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|-------------------|--------------------------------|---------------------------------|
| Set-aside cash balance as of June 30, 2002 | (\$177,921) | \$ - | \$31,150 |
| Current year set-aside requirement | 175,118 | 175,118 | - |
| Qualifying disbursements | <u>(21,859)</u> | <u>(431,675)</u> | <u>(\$31,150)</u> |
| Total | <u>(24,662)</u> | <u>(256,557)</u> | <u>-</u> |
| Cash balance carried forward to FY 2004 | <u>(\$24,662)</u> | <u>\$ -</u> | <u>\$ -</u> |

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$33,101 for school bus reserves is in the general fund on the Combined Balance Sheet at June 30, 2003.

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|-------------------------------|---------------------------|--------------------------|-------------------------|--------------------------|---------------------------|
| U.S DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution | N/A | 10.550 | \$ - | \$ 33,983 | \$ - | \$ 33,983 |
| National School Lunch Program | 48819 LL-P4 2002 | 10.555 | 20,320 | - | 20,320 | - |
| | 48819 LL-P4 2003 | | 75,101 | - | 75,101 | - |
| Total National School Lunch Program | | | <u>95,421</u> | <u>-</u> | <u>95,421</u> | <u>-</u> |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | <u>95,421</u> | <u>33,983</u> | <u>95,421</u> | <u>33,983</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 48819 C1-S1 2002 | 84.010 | 2,509 | - | 47,032 | - |
| | 48819 C1-S1 2003 | | 245,784 | - | 251,158 | - |
| Total Title I Grants to Local Educational Agencies | | | <u>248,293</u> | <u>-</u> | <u>298,190</u> | <u>-</u> |
| Special Education Grants to States | 48819 6B-SF 2002 | 84.027 | 8,492 | - | 27,061 | - |
| | 48819 6B-SF 2003 | | 58,497 | - | 56,655 | - |
| Total Special Education Grants to States | | | <u>66,989</u> | <u>-</u> | <u>83,716</u> | <u>-</u> |
| Eisenhower Professional Development State Grant | 48819 MS-S1 2001 | 84.281 | 694 | - | 574 | - |
| | 48819 MS-S1 2002 | | (3,023) | - | 2,391 | - |
| Total Eisenhower Professional Development State Grant | | | <u>(2,329)</u> | <u>-</u> | <u>2,965</u> | <u>-</u> |
| Technology Literacy Challenge Fund Grants | 48819 MS-S1 2003 | 84.318 | 3,289 | - | 2,370 | - |
| Innovative Education Program Strategies | 48819 C2-S1 2001 | 84.298 | 1,848 | - | 3,579 | - |
| | 48819 C2-S1 2002 | | 2,013 | - | 5,025 | - |
| | 48819 C2-S1 2003 | | 4,958 | - | 4,188 | - |
| Total Innovative Education Program Strategies | | | <u>8,819</u> | <u>-</u> | <u>12,792</u> | <u>-</u> |
| Safe and Drug Free Schools and Community - State Grant | 48819 DR-S1 2001 | 84.186 | 657 | - | 2,274 | - |
| | 48819 DR-S1 2002 | | - | - | 1,527 | - |
| | 48819 DR-S1 2003 | | 7,908 | - | 7,908 | - |
| Total Safe and Drug Free Schools and Community - State Grant | | | <u>8,565</u> | <u>-</u> | <u>11,709</u> | <u>-</u> |
| School Renovation, IDEA, & Technology Program | 48819 AT-S3 2002 | 84.352A | 73,917 | - | 15,328 | - |
| Reducing Class Size | 48819 CR-S1 2001 | 84.340 | - | - | 3,560 | - |
| | 48819 CR-S1 2002 | | (2,127) | - | 19,427 | - |
| Total Reducing Class Size | | | <u>(2,127)</u> | <u>-</u> | <u>22,987</u> | <u>-</u> |
| Improving Teacher Quality State Grants | 48819 CR-S1 2003 | 84.367 | 37,526 | - | 16,922 | - |
| Total U.S. Department of Education | | | <u>442,942</u> | <u>-</u> | <u>466,979</u> | <u>-</u> |
| Total Federal Awards | | | <u>\$ 538,363</u> | <u>\$ 33,983</u> | <u>\$ 562,400</u> | <u>\$ 33,983</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

We have audited the general purpose financial statements of the Northmor Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 17, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 17, 2003.

This report is intended solely for the information and use of the management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 17, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

Compliance

We have audited the compliance of the Northmor Local School District, Morrow County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to the major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 17, 2003

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | CFDA # 84.010 – Title I Grants to Local Educational Agencies |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(Continued)**

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

| | |
|-----------------------|-----------------|
| Finding Number | 2003-001 |
|-----------------------|-----------------|

Food Service Receipts

Cash registers utilized by all schools for purchased lunches provide daily tapes. However, the students at each school within the District also have the option to prepay for lunches. Such prepayments are not run through the cafeteria cash registers. At the elementary schools, the students pay their teacher for prepaid lunches in the mornings. The students are eligible to prepay for as many days, weeks or months as desired. Once the money is collected, the teacher fills out a daily tally sheet which summaries the total cash collected by category (i.e. student type a lunch, milk and afternoon milk) for that day. At the high school and middle school the students who prepay lunches give their money to a cashier in the cafeteria before lunch time. The cashier records their name, date and ticket number in a notebook.

Each day, cash receipts are also collected by the cafeteria cashiers from sales of ala carte items, adult lunches, and student lunches that are not prepaid. At the end of the lunch period each day, the cashiers complete a Daily Cafeteria Cash Summary Report which reconciles total cash collected with the total sales from the cash register tape. The Daily Cafeteria Cash Summary Report and the actual cash collected are then forwarded to the building secretaries. Each secretary documents on the Daily Cafeteria Cash Summary Report the amount of cash collected from prepayments for that day. Each secretary then prepares a bank deposit including the cash generated from prepayments and the cash collected by the cafeteria cashiers. The bank deposit is then made and the deposit slip is forwarded to the Treasurer for posting to the District's accounting ledgers.

The District has no internal control procedure in place to ensure completeness of the receipts collected by the teachers, nor does the District have an internal control procedure in place to ensure completeness of the receipts deposited by the building secretaries. Failure to implement such control procedures jeopardizes the District's ability to ensure completeness of food service receipts.

Furthermore, the daily tally sheets completed by the teachers at the Johnsville Elementary School were not maintained by the building secretary. These tally sheets were destroyed following the end of the school year. Failure to maintain original source documentation to support food service receipt transactions may lead to compromised accountability over food service receipts.

To help ensure completeness of food service receipts, we recommend the District develop procedures to reconcile cash collections from prepaid lunch sales to the number of prepaid lunches actually served.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None



**Auditor of State
Betty Montgomery**

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NORTHMOR LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2004**