



Dave Yost • Auditor of State



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – Cash Basis .....	11
Statement of Activities – Cash Basis .....	12
Statement of Cash Basis Assets and Fund Balances - Governmental Funds.....	13
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds .....	15
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	17
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – District Managed Student Activity Fund.....	18
Statement of Fund Net Assets – Cash Basis – Proprietary Fund.....	19
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Net Assets – Cash Basis – Proprietary Fund.....	20
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds.....	21
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Funds .....	22
Notes to the Basic Financial Statements .....	23
Federal Awards Receipts and Expenditures Schedule.....	49
Notes to the Federal Awards Receipts and Expenditures Schedule .....	50
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	51
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	53
Schedule of Findings – OMB Circular A-133 § .505.....	55
Schedule of Prior Audit Findings – OMB Circular A-133 § .315(b).....	62

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio, as of June 30, 2012, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General and District Managed Student Activity Funds, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The Federal Awards Receipts and Expenditures Schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



**Dave Yost**  
Auditor of State

January 28, 2013

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

---

As management of the Northern Local District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Northern Local District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the basic financial statements.

### **Financial Highlights**

Key financial highlights for the fiscal year 2012 are as follows:

- Net assets of governmental activities decreased \$254,371.
- General receipts, consisting primarily of property taxes, state foundation receipts, and proceeds of debt, totaled \$28,958,372, or 88 percent of total receipts.
- Program receipts, consisting of charges for services and operating grants and contributions, accounted for \$4,005,930, or 12 percent of total receipts.
- The District had \$33,218,673 in cash disbursements during the fiscal year. The net cost of providing services (total cash disbursements less program receipts), totaling \$29,212,743, was funded with general receipts.

### **Using this Annual Financial Report**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole District, and present an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

---

***Reporting the District as a Whole***

*Statement of Net Assets and the Statement of Activities – Cash Basis*

While these documents contain information about the large number of funds used by the District to provide programs and activities for students, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities answer this question. These statements are presented on the cash basis of accounting. This basis of accounting only takes into account the receipts that were received and the disbursements that were paid.

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

In the Statement of Net Assets and the Statement of Activities, the District's activities are all reported as Governmental.

- **Governmental Activities** – All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services (primarily food service), extracurricular activities, and debt service.

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 8. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, permanent improvement fund, and district managed student activities fund.

***Governmental Funds*** Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

**Proprietary Funds** The District maintains an internal service fund that is used to account for enterprise-like operations that provide services, on a user fee basis, primarily or exclusively to departmental customers within the governmental entity itself, rather than to external customers. The District uses an internal service fund to account for its risk management related to medical/surgical and dental self-insurance. Because these services predominately benefit governmental activities they have been included within the governmental activities in the government-wide financial statements.

**Fiduciary Funds** These funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The District has student activity agency funds and private purpose trust funds.

**The District as a Whole**

Table 1 provides a summary of the District's net assets for 2012 compared to 2011 on a cash basis:

Table 1  
**Net Assets**

	Governmental Activities	
	June 30, 2012	June 30, 2011
<b>Assets</b>		
Current Assets	\$ 638,558	\$ 892,929
Total	\$ 638,558	\$ 892,929
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$ 5,105	\$ 16,901
Debt Service	822,460	1,158,641
Food Service	-	49,203
Extracurricular Activities	120,864	111,461
State and Federal Grants	64,017	90
Other Purposes	70	36,920
Unrestricted	(373,958)	(480,287)
Total Net Assets	\$ 638,558	\$ 892,929

As mentioned previously, net assets of governmental activities decreased \$254,371 or 28 percent from 2011.

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012 in comparison to June 30, 2011.

Table 2  
Changes in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$ 1,318,983	\$ 1,260,041
Operating Grants and Contributions	2,686,947	4,359,854
Capital Grants and Contributions	-	100,000
Total Program Cash Receipts	<u>4,005,930</u>	<u>5,719,895</u>
General Cash Receipts:		
Property Taxes	7,674,816	7,290,878
Payment in Lieu of Taxes	966,263	954,722
Grants and Entitlements	12,033,902	10,491,133
Proceeds of Debt	8,002,362	-
Investment Earnings	13,244	5,719
Insurance Recoveries	-	21,582
Miscellaneous	267,785	139,868
Total General Cash Receipts	<u>28,958,372</u>	<u>18,903,902</u>
Total Cash Receipts	<u>32,964,302</u>	<u>24,623,797</u>
Program Cash Disbursements:		
Instruction:		
Regular	9,428,496	9,743,465
Special	2,412,372	3,039,199
Vocational	300,584	347,926
Other	1,473,558	1,245,955
Support Services:		
Pupils	692,909	849,787
Instructional Staff	1,259,142	1,119,414
Board of Education	687,584	322,687
Administration	1,599,139	1,583,452
Fiscal	796,767	698,346
Business	22,307	24,377
Operation and Maintenance of Plant	2,139,453	2,816,781
Pupil Transportation	1,832,831	1,618,471
Central	53,883	55,360
Operation of Food Service	1,157,947	1,376,493
Community Services	138,948	108,701
Extracurricular Activities	694,354	667,432
Capital Outlay	1,847,122	13,000
Debt Service:		
Principal Retirement	2,046,246	166,297
Interest and Fiscal Charges	294,857	404,802
Payment of Refunded Bonds Escrow	4,340,174	-
Total Program Cash Disbursements	<u>33,218,673</u>	<u>26,201,945</u>
Change in Net Assets	(254,371)	(1,578,148)
Net Assets at Beginning of Year	892,929	2,471,077
Net Assets at End of Year	<u>\$ 638,558</u>	<u>\$ 892,929</u>

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

---

Operating grants and contributions decreased from fiscal year 2011 to fiscal year 2012 mainly due to specific state funded revenues (transportation, special education, etc.) that were identifiable in fiscal year 2011 not being identifiable for the current year. Thus in fiscal year 2012, these revenues were classified as General Revenues - Grants and Entitlements. In addition, this decrease is due to the phase-out of stimulus grants.

The District's most significant cash disbursements are for instruction, which accounts for approximately 41 percent of total cash disbursements. Other programs which support the instruction process, including most notably pupils, instructional staff, administration, operation and maintenance, and pupil transportation, account for approximately 23 percent of total government cash disbursements.

The Statement of Activities shows the cost of program services, and the charges for services and sales and grants and the contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services for the current and preceding fiscal years. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

*This space was intentionally left blank.*



*Home of the Generals*

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

Table 3  
Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
<b>Cash Disbursements</b>				
Instruction:				
Regular	\$ 9,428,496	\$ 8,491,044	\$ 9,743,465	\$ 9,306,574
Special	2,412,372	1,598,817	3,039,199	2,036,347
Vocational	300,584	289,890	347,926	206,873
Other	1,473,558	1,421,382	1,245,955	233,836
Support Services:				
Pupils	692,909	459,448	849,787	823,853
Instructional Staff	1,259,142	972,837	1,119,414	1,011,690
Board of Education	687,584	687,584	322,687	322,687
Administration	1,599,139	1,581,721	1,583,452	1,578,348
Fiscal	796,767	796,767	698,346	684,365
Business	22,307	22,307	24,377	24,377
Operation and Maintenance	2,139,453	2,135,194	2,816,781	2,811,675
Pupil Transportation	1,832,831	1,832,831	1,618,471	469,475
Central	53,883	53,883	55,360	50,360
Operation of Food Service	1,157,947	77,142	1,376,493	181,556
Community Services	138,948	26,588	108,701	(13,682)
Extracurricular Activities	694,354	236,909	667,432	169,617
Capital Outlay	1,847,122	1,847,122	13,000	13,000
Debt Service:				
Principal Retirement	2,046,246	2,046,246	166,297	166,297
Interest and Fiscal Charges	294,857	294,857	404,802	404,802
Payment to Refunded Bonds Es	4,340,174	4,340,174	-	-
<b>Total Cash Disbursements</b>	<b><u>\$33,218,673</u></b>	<b><u>\$29,212,743</u></b>	<b><u>\$26,201,945</u></b>	<b><u>\$20,482,050</u></b>

The dependence upon tax receipts and unrestricted state entitlements is apparent as approximately 87 percent of instruction activities are supported through taxes and other general receipts.

Approximately 66 percent of extracurricular activities disbursements are covered by program cash receipts. This is primarily a result of athletic fees, ticket sales, gate receipts and contributions.

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

**The District Funds**

The District's funds are accounted for using the cash basis of accounting. The District's governmental funds had total cash receipts, including other financing sources, of \$32,964,302 and cash disbursements, including other financing uses, of \$33,345,496. The excess of cash disbursements over cash receipts for the governmental funds totaled \$381,194.

The schedule below indicates the cash fund balances and the total change in fund balances as of June 30, 2012 for all of the major and non-major governmental funds.

Table 4  
Fund Balance Analysis

	<u>June 30, 2012</u>	<u>June 30, 2011 Restated</u>	<u>Increase (Decrease)</u>
Major Funds:			
General	\$ 94,499	\$ 67,797	\$ 26,702
Bond Retirement	822,460	1,158,641	(336,181)
Permanent Improvement	5,105	16,901	(11,796)
District Managed Student Activity	120,864	111,461	9,403
Other Governmental funds	<u>31,317</u>	<u>100,639</u>	<u>(69,322)</u>
Total	<u>\$ 1,074,245</u>	<u>\$ 1,455,439</u>	<u>\$ (381,194)</u>

The significant decrease in the Bond Retirement Fund represents the amount in which current year debt service exceeded current year property tax receipts.

The District Managed Student Activity Fund met the requirements of a major fund at June 30, 2012. See footnote 18 for more detailed information about the District's fund reclassification.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, cash disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of fiscal year 2011, the District amended its general fund budget. The District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

For the general fund, final estimated receipts were \$21,850,203 which was more than the original estimate of \$20,144,821. Final appropriations were \$21,843,503, which was more than the original estimate of \$20,093,112. Both increases were primarily a result of the issuance and repayment of a short-term loan. The variances between final estimated receipts and actual receipts and final appropriations and actual disbursements were insignificant.

**Northern Local District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

**Debt Administration**

At June 30, 2012, the District had \$5,939,997 in debt outstanding, which is a \$1,489,997 increase in debt from the prior period. Due to prudent spending and continuous monitoring of all cash receipts and cash disbursements, our bond rating is AAA.

Table 5  
 Outstanding Debt at Fiscal Year End

	Principal Outstanding 6/30/2012	Principal Outstanding 6/30/2011
<b>Governmental Activities</b>		
School Facilities Construction Bonds Issued 10/01; Mature 10/23; 3.30% - 5.00%	\$ -	\$ 4,450,000
Construction & Improvement Refunding Bonds Mature 10/2023; 1.00%-3.50%	4,154,997	-
Permanent Improvement Tax Anticipation Notes Mature 12/2020; 1.00%-4.50%	1,785,000	-
	<b>\$ 5,939,997</b>	<b>\$ 4,450,000</b>

See footnote 10 for more detailed information about the District's debt.

**Economic Factors**

The District's current five-year forecast is projecting sufficient receipts for fiscal year 2013 through 2017 with positive ending cash balances of \$164,193, \$305,212, \$590,430, \$1,019,274 and \$1,490,787, respectively.

To achieve the aforementioned projected cash balances, the Board of Education and administration of the District must continue to maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Elizabeth Arnold, Treasurer, at Northern Local District, 8700 Sheridan Drive, Thornville, Ohio 43076. Or, E-mail the Treasurer at [No\\_Larnold@seovec.org](mailto:No_Larnold@seovec.org).

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2012**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 638,558
Total Assets	<u>\$ 638,558</u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$ 5,105
Debt Service	822,460
Extracurricular Activities	120,864
State and Federal Grants	64,017
Other Purposes	70
Unrestricted	<u>(373,958)</u>
Total Net Assets	<u>\$ 638,558</u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

		Program Receipts		Net (Disbursements)/ Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 9,428,496	\$ 335,766	\$ 601,686	\$ (8,491,044)
Special	2,412,372	86,087	727,468	(1,598,817)
Vocational	300,584	10,694	-	(289,890)
Other	1,473,558	52,176	-	(1,421,382)
Support Services:				
Pupils	692,909	-	233,461	(459,448)
Instructional Staff	1,259,142	-	286,305	(972,837)
Board of Education	687,584	-	-	(687,584)
Administration	1,599,139	-	17,418	(1,581,721)
Fiscal Services	796,767	-	-	(796,767)
Business	22,307	-	-	(22,307)
Operation and Maintenance	2,139,453	-	4,259	(2,135,194)
Pupil Transportation	1,832,831	-	-	(1,832,831)
Central	53,883	-	-	(53,883)
Food Services Operations	1,157,947	376,815	703,990	(77,142)
Community Services	138,948	-	112,360	(26,588)
Extracurricular Activities	694,354	457,445	-	(236,909)
Capital Outlay	1,847,122	-	-	(1,847,122)
Debt Service:				
Principal Retirement	2,046,246	-	-	(2,046,246)
Interest and Fiscal Charges	294,857	-	-	(294,857)
Payment to Refunded Bonds Escrow	4,340,174	-	-	(4,340,174)
<b>Total Governmental Activities</b>	<b>\$ 33,218,673</b>	<b>\$ 1,318,983</b>	<b>\$ 2,686,947</b>	<b>(29,212,743)</b>

General Receipts	
Property Taxes Levied for:	
General Purposes	6,768,568
Capital Outlay	684,500
Debt Service	221,748
Payment in Lieu of Taxes	966,263
Grants & Entitlements not Restricted to Specific Programs	12,033,902
Proceeds of Debt	8,002,362
Investment Earnings	13,244
Sale of Capital Assets	1,956
Other Receipts	265,829
<b>Total General Receipts</b>	<b>28,958,372</b>
 Change in Net Assets	 (254,371)
 Net Assets Beginning of Year	 892,929
<b>Net Assets End of Year</b>	<b>\$ 638,558</b>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General Fund	Bond Retirement Fund	Permanent Improvement Fund	District Managed Student Activity Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Equity in Pooled Cash and Investments	\$ 94,499	\$ 822,460	\$ 5,105	\$ 120,864	\$ 31,317	\$ 1,074,245
Total Assets	<u>\$ 94,499</u>	<u>\$ 822,460</u>	<u>\$ 5,105</u>	<u>\$ 120,864</u>	<u>\$ 31,317</u>	<u>\$ 1,074,245</u>
<b>Fund Balances:</b>						
Restricted for:						
Capital Projects	\$ -	\$ -	\$ 5,105	\$ -	\$ -	\$ 5,105
Debt Service	-	822,460	-	-	-	822,460
Extracurricular Activities	-	-	-	120,864	-	120,864
State and Federal Grants	-	-	-	-	64,017	64,017
Other Purposes	-	-	-	-	70	70
Assigned for:						
Public School Support	67,284	-	-	-	-	67,284
Encumbrances	4,220	-	-	-	-	4,220
Unassigned:	22,995	-	-	-	(32,770)	(9,775)
Total Fund Balances	<u>\$ 94,499</u>	<u>\$ 822,460</u>	<u>\$ 5,105</u>	<u>\$ 120,864</u>	<u>\$ 31,317</u>	<u>\$ 1,074,245</u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2012**

<b>Total Governmental Fund Balances</b>	<b>\$ 1,074,245</b>
---	---------------------

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Governmental activities' net assets include the internal service funds' equity in cash and investments. The proprietary funds' net assets include these assets.	<u>(435,687)</u>
--	------------------

<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 638,558</u></u></b>
--	---------------------------------

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Bond Retirement Fund	Permanent Improvement Fund	District Managed Student Activity Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>						
Property Taxes	\$ 6,768,568	\$ 221,748	\$ 684,500	\$ -	\$ -	\$ 7,674,816
Intergovernmental	12,827,819	99,067	73,279	-	2,686,947	15,687,112
Interest	10,693	-	-	-	2,551	13,244
Tuition and Fees	484,723	-	-	-	-	484,723
Extracurricular Activities	155,551	-	-	301,894	-	457,445
Charges for Services	-	-	-	-	376,815	376,815
Miscellaneous	265,829	-	-	-	-	265,829
<b>Total Receipts</b>	<u>20,513,183</u>	<u>320,815</u>	<u>757,779</u>	<u>301,894</u>	<u>3,066,313</u>	<u>24,959,984</u>
<b>Disbursements:</b>						
Current:						
Instruction:						
Regular	8,748,713	-	138,118	-	595,958	9,482,789
Special	1,704,678	-	-	-	726,614	2,431,292
Vocational	302,021	-	-	-	-	302,021
Other	1,473,558	-	-	-	-	1,473,558
Support services:						
Pupils	464,582	-	-	-	231,430	696,012
Instructional staff	1,013,470	-	-	-	253,778	1,267,248
Board of Education	687,584	-	-	-	-	687,584
Administration	1,590,276	4	3	-	18,953	1,609,236
Fiscal	755,409	22,677	20,378	-	-	798,464
Business	22,307	-	-	-	-	22,307
Operation and Maintenance of Plant	1,808,534	-	331,339	-	7,034	2,146,907
Pupil Transportation	1,410,505	-	436,221	-	-	1,846,726
Central	53,883	-	-	-	-	53,883
Operation of Food Services	2,848	-	-	-	1,162,554	1,165,402
Community Services	-	-	-	-	139,314	139,314
Extracurricular Activities	401,863	-	-	292,491	-	694,354
Capital Outlay	-	-	1,847,122	-	-	1,847,122
Debt service:						
Principal Retirement	1,536,246	510,000	-	-	-	2,046,246
Interest and Fiscal Charges	11,960	217,250	65,647	-	-	294,857
<b>Total Disbursements</b>	<u>21,988,437</u>	<u>749,931</u>	<u>2,838,828</u>	<u>292,491</u>	<u>3,135,635</u>	<u>29,005,322</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(1,475,254)</u>	<u>(429,116)</u>	<u>(2,081,049)</u>	<u>9,403</u>	<u>(69,322)</u>	<u>(4,045,338)</u>
<b>Other Financing Sources (Uses):</b>						
Sale of Assets	1,956	-	-	-	-	1,956
Tax Anticipation Notes Issued	1,500,000	-	2,000,000	-	-	3,500,000
Tax Anticipation Notes Premium	-	-	69,253	-	-	69,253
Refunding Bonds Issued	-	4,194,997	-	-	-	4,194,997
Refunding Bonds Premium	-	238,112	-	-	-	238,112
Payment to Refunded Bonds Escrow	-	(4,340,174)	-	-	-	(4,340,174)
<b>Total Other Financing Sources (Uses)</b>	<u>1,501,956</u>	<u>92,935</u>	<u>2,069,253</u>	<u>-</u>	<u>-</u>	<u>3,664,144</u>
<b>Net Change in Fund Balances</b>	<u>26,702</u>	<u>(336,181)</u>	<u>(11,796)</u>	<u>9,403</u>	<u>(69,322)</u>	<u>(381,194)</u>
Fund Balance, Beginning of Year, Restated	67,797	1,158,641	16,901	111,461	100,639	1,455,439
Fund Balance, End of Year	<u>\$ 94,499</u>	<u>\$ 822,460</u>	<u>\$ 5,105</u>	<u>\$ 120,864</u>	<u>\$ 31,317</u>	<u>\$ 1,074,245</u>

See accompanying notes to the basic financial statements.

**NOTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Net Change in Fund Balances - Total Governmental Funds** \$ (381,194)

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts. 126,823

**Change in Net Assets of Governmental Activities** \$ (254,371)

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Over/(Under)
<b>Receipts:</b>				
Property Taxes	\$ 6,447,878	\$ 6,768,568	\$ 6,768,568	\$ -
Intergovernmental	13,013,032	12,827,819	12,827,819	-
Interest	-	10,684	10,693	9
Tuition and Fees	416,742	484,723	484,723	-
Miscellaneous	263,816	255,095	265,829	10,734
<b>Total Receipts</b>	<u>20,141,468</u>	<u>20,346,889</u>	<u>20,357,632</u>	<u>10,743</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	8,743,299	8,752,619	8,752,603	16
Special	1,965,721	1,700,956	1,700,254	702
Vocational	341,604	302,031	302,027	4
Other	1,132,000	1,473,574	1,473,573	1
<b>Support Services:</b>				
Pupils	667,303	507,785	507,730	55
Instructional Staff	906,758	1,013,497	1,013,479	18
Board of Education	292,689	687,597	687,595	2
Administration	1,480,726	1,590,530	1,590,335	195
Fiscal	601,146	755,436	755,431	5
Business	24,377	22,308	22,307	1
Operation and Maintenance of Plant	2,112,078	1,808,678	1,808,661	17
Pupil Transportation	1,502,579	1,410,578	1,410,571	7
Central	50,360	53,883	53,883	-
Operation of Food Services	4,511	2,848	2,848	-
Extracurricular Activities	264,961	256,120	256,117	3
Capital Outlay	3,000	-	-	-
<b>Debt Service:</b>				
Principal Retirement	-	1,500,000	1,500,000	-
Interest and Fiscal Charges	-	5,063	5,063	-
<b>Total Disbursements</b>	<u>20,093,112</u>	<u>21,843,503</u>	<u>21,842,477</u>	<u>1,026</u>
<b>Excess of Receipts Over (Under) Disbursements</b>	<u>48,356</u>	<u>(1,496,614)</u>	<u>(1,484,845)</u>	<u>11,769</u>
<b>Other Financing Sources (Uses):</b>				
Sale of Assets	3,353	3,314	1,956	(1,358)
Proceeds from Notes	-	1,500,000	1,500,000	-
<b>Total Other Financing Sources (Uses)</b>	<u>3,353</u>	<u>1,503,314</u>	<u>1,501,956</u>	<u>(1,358)</u>
<b>Net Change in Fund Balance</b>	51,709	6,700	17,111	10,411
Fund Balances at Beginning of Year	274	274	274	-
Prior Year Encumbrances Appropriated	5,609	5,609	5,609	-
<b>Fund Balances at End of Year</b>	<u>\$ 57,592</u>	<u>\$ 12,583</u>	<u>\$ 22,994</u>	<u>\$ 10,411</u>

See accompanying notes to the basic financial statements

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
DISTRICT MANAGED STUDENT ACTIVITY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Receipts:				
Extracurricular Activities	\$ 277,396	\$ 301,656	\$ 301,894	\$ 238
Total Receipts	<u>277,396</u>	<u>301,656</u>	<u>301,894</u>	<u>238</u>
Disbursements:				
Extracurricular Activities	323,164	412,956	330,015	82,941
Total Disbursements	<u>323,164</u>	<u>412,956</u>	<u>330,015</u>	<u>82,941</u>
Excess of Receipts Over (Under) Disbursements	<u>(45,768)</u>	<u>(111,300)</u>	<u>(28,121)</u>	<u>83,179</u>
Net Change in Fund Balance	(45,768)	(111,300)	(28,121)	83,179
Fund Balances at Beginning of Year	92,097	92,097	92,097	-
Prior Year Encumbrances Appropriated	19,364	19,364	19,364	-
Fund Balances at End of Year	<u>\$ 65,693</u>	<u>\$ 161</u>	<u>\$ 83,340</u>	<u>\$ 83,179</u>

See accompanying notes to the basic financial statements

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2012**

	<u>Governmental Activities</u> <u>Internal Service</u>
<b>Assets:</b>	
Equity in Pooled Cash and Investments	<u>\$ (435,687)</u>
Total Assets	<u><u>\$ (435,687)</u></u>
<b>Net Assets:</b>	
Unrestricted	<u>\$ (435,687)</u>
Total Net Assets	<u><u>\$ (435,687)</u></u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Governmental Activities
	Internal Service
<b>Operating Receipts:</b>	
Charges for Services	\$ 3,926,771
Total Operating Receipts	3,926,771
<b>Operating Disbursements:</b>	
Claims	3,210,954
Administration	588,994
Total Operating Disbursements	3,799,948
Change in Net Assets	126,823
Net Assets at Beginning of Year	(562,510)
Net Assets at End of Year	\$ (435,687)

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	Private Purpose Trust	Agency
<b>Assets:</b>		
Equity in Pooled Cash and Investments	\$ 234,647	\$ 28,595
Total Assets	\$ 234,647	\$ 28,595
<b>Net Assets</b>		
Held in Trust for Scholarships	\$ 234,647	\$ -
Held for Students Activity	-	28,595
Total Net Assets	\$ 234,647	\$ 28,595

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Contributions	\$ 29,761
Total Additions	<u>29,761</u>
<b>Deductions</b>	
Scholarship Awarded	<u>5,955</u>
Total Deductions	<u>5,955</u>
Change in Net Assets	23,806
Net Assets - Beginning of Year	210,841
Net Assets - End of Year	<u><u>\$ 234,647</u></u>

See accompanying notes to the basic financial statements.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 1 - Description of the District and Reporting Entity**

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

The Northern Local School District of Perry County was established on June 10, 1968 by the State of Ohio as a public school system. The District is a consolidated school district made up from three original high schools in the area, Glenford, Somerset, and Thornville, combined now to be Sheridan High School. The District is located in three counties, Perry, Licking, and Fairfield, serving an area of approximately 173 square miles. The District is staffed by 165 certificated employees and 110 non-certificated who provide services to 2,269 students and other community members. The District currently operates five instructional buildings, one administrative building, and one support service building.

*Reporting Entity*

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

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

The District participates in four jointly governed organizations, and one insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative (SEOVEC), the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.A, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The School District does not apply Financial Accounting Standards Board (FASB) statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the District's accounting policies.

**A. Basis of Accounting**

The District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**B. Basis of Presentation**

The District's basic financial statements prepared on the cash basis of accounting include a government-wide statement, including a cash basis statement of net assets and a statement of activities, and cash basis fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements.** The Statement of Net Assets and Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The District does not have any business-type activities.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

The statement of net assets presents the financial condition of the governmental activities of the District at fiscal year-end. The statement of activities presents a comparison between direct cash disbursements and program cash receipts for each program or function of the District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Cash receipts which are not classified as program cash receipts are presented as general receipts of the District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the District.

**Fund Financial Statements.** The District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**C. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following is a description of the District's major governmental funds:

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

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

**Permanent Improvement Fund** The permanent improvement fund is used to account for the accumulation of resources for acquiring, constructing, or improving school facilities.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***District Managed Student Activity Fund*** The district managed student activity fund is used to account for the accumulation of resources for student activity programs which have student participation in the activity but do not have student management of the programs. This fund would usually include athletic programs but could also include the band, cheerleaders, flag corps, and other similar types of activities.

The Districts' Other Governmental Funds primarily account for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. As described in Note 6, the District uses an internal service fund to account for medical/surgical and dental insurance which the District self insures.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's endowment funds have been classified as a private purpose trust and reported accordingly. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

***D. Cash and Investments***

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as equity in pooled cash and investments on the financial statements.

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposits, and open-ended money market mutual funds. All investments are reported at cost.

The District invests in STAR Ohio, an investment pool managed by the State Treasurer's office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a-7 of the Investment Company Act of 1940.

Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30, 2012. Management of STAR Ohio states that its policy also prohibits investing in derivatives and/or engaging in the use of reverse repurchase agreements.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts recorded by the District during fiscal year 2012 amounted to \$13,244, of which \$10,693 was recorded in the General Fund and \$2,551 was recorded in the Food Service Fund.

***E. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting.

The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The General Fund "Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)" has been presented at the function level for comparative purposes.

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

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

***F. Inventory and Prepaid Items***

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

***G. Capital Assets***

Capital assets are not recognized in any of the District's funds in accordance with the cash basis of accounting. Instead, capital acquisition and construction costs are reflected as cash disbursements in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***H. Interfund Receivables/Payables***

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

***I. Compensated Absences***

Employees are entitled to vacation, sick, and personal leave benefits that are recorded when cash is disbursed. A liability for any unused benefits is not recorded on the District's cash basis financial statements.

***J. Long-Term Obligations***

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither a other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

***K. Net Assets***

Net assets are recorded in conjunction with assets recorded by the District. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes primarily include resources restricted to cash disbursements for auxiliary services programs.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. None of the District's restricted net assets are the result of enabling legislation.

***L. Interfund Activity***

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***M. Fund Balances***

In accordance with Governmental Accounting Standards Board Statements No. 54, Fund Balance Reporting, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories were used:

Restricted - resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Assigned - resources that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - residual fund balance within the General Fund not classified elsewhere above and all other governmental fund balances which have a negative fund balance.

The District applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The District considers assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

***N. Operating Cash Receipts and Cash Disbursements***

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for services for self-insurance programs. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the fund.

***O. Extraordinary and Special Items***

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

***P. Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District had no restricted assets at year-end.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Q. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions consist of pension and postretirement health care benefits.

**Note 3 - Compliance**

**A. Financial Statement Reporting**

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**B. Negative Cash**

The School District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Codes Section 5705.10:

	<u>Amount</u>
Internal Service Fund	(\$435,687)
Food Service Fund	(32,770)

**Note 4 - Deposits and Investments**

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

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

---

**Note 4 - Deposits and Investments (Continued)**

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

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.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 4 - Deposits and Investments (Continued)**

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

At fiscal year-end, the carrying amount of all District deposits was \$896,957 including certificates of deposit totaling \$90,000, and the bank balance was \$910,356. The District's entire bank balance was covered by Federal Deposit Insurance.

**Investments** The District has adopted a formal investment policy. The primary objective of the policy is the preservation of principal. To meet this objective, portfolio diversification is established and maintained with a goal of generating portfolio income that exceeds any losses in individual security values.

At June 30, 2012, the District had the following investments:

	Fair Value	Maturity in Years		Percent to Total
		Less than 1	1 to 3	
STAR Ohio	\$3,562	\$3,562	\$ -	73.55%
RSA Mutual Fund	1,281	1,281	-	26.45%
Total	<u>\$4,843</u>	<u>\$4,843</u>	<u>\$ -</u>	<u>100.00%</u>

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

**Credit Risk** The District currently has no policy in place regarding credit risk. The District's investments in STAR Ohio and money market mutual funds are rated AAAM by Standard & Poor's.

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 5 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2012 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually.

If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax was phased out – the assessed percentage for all property including inventory for 2012 was zero.

The District receives property taxes from Perry, Licking and Fairfield County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 5 - Property Taxes (Continued)**

The assessed values upon which property taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$244,792,200	91.42%	\$264,212,200	83.98%
Public Utility Personal	22,960,360	8.58%	50,408,920	16.02%
<b>Total</b>	<b>\$267,752,560</b>	<b>100.00%</b>	<b>\$314,621,120</b>	<b>100.00%</b>
Full Tax rate per \$1,000 of assessed valuation	\$38.92		\$38.92	

**Note 6 - Risk Management**

**A. Property and Liability**

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 2012, the District contracted with Indiana Insurance for property, builder's risk, liability, and fleet insurances.

Coverage provided is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$82,699,490
Accounts Receivable	250,000
Equipment (\$250 deductible)	100,000
Employee Dishonesty (\$1,000 deductible)	1,000,000
Fleet Insurance	2,000,000
Educational General Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage in fiscal year 2012 from fiscal year 2011.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 6 - Risk Management (Continued)**

***B. Workers Compensation***

For fiscal year 2012, the District participated in the Ohio School Board Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13) established under Section 4123.29 of the Ohio Revised Code. 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 Districts is calculated as one experience and a common premium rate is applied to all 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. Participation in the GRP is limited to Districts and libraries that can meet the GRP's selection criteria.

***C. Self Insurance***

During the fiscal year, employees of the District were covered by the District's medical/surgical and dental self-insurance Plan (the "Plan"). The District contributed approximately 90% per month per employee to the Plan and employees authorized payroll withholdings to pay their share of the premium which was approximately 10% per month. Total premiums paid into the internal service fund of the District were \$3,926,771 of which the District paid \$3,456,474 while the employees were responsible for the remaining portion.

At June 30, 2012 the self-insurance balance was (\$435,687). A comparison of the internal service fund cash and investments to the actuarially-measured liability as of June 30, 2011 follows:

	2012	2011
Cash and investments	(\$435,687)	(\$562,510)
Claims liabilities at June 30	\$272,510	\$331,601

**Note 7 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

Plan Description - 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, and survivor 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 per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employer/Audit Resources.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 7 - Defined Benefit Pension Plans (Continued)**

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.7%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$394,765, \$333,466, and \$379,056, respectively, equal to the required contributions for each year.

**B. State Teachers Retirement System**

Plan Description - The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 7 - Defined Benefit Pension Plans (Continued)**

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

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

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

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 7 - Defined Benefit Pension Plans (Continued)**

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

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

A 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10 percent of covered payroll for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,260,153, \$1,359,710, and \$1,375,716 , respectively, equal to the required contributions for each year.

**C. Social Security**

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 System /State Teachers Retirement System. At fiscal year-end, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 8 - Postemployment Benefits**

**A. School Employees Retirement System**

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The District's contributions for the years ended June 30, 2012, 2011 and 2010 were \$23,214 \$21,459, and \$20,307, respectively, which equaled the required contributions each year.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 8 - Postemployment Benefits (Continued)**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care, including the surcharge, for the years ended June 30, 2012, 2011, and 2010 were \$17,096, \$40,377, and \$112,634, respectively, which equaled the required contributions each year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**B. State Teachers Retirement System**

Plan Description - The District contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio.

Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$96,935, \$104,593, and \$98,265, respectively, which equaled the required contributions each year.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 9 - Short Term Obligations**

During fiscal year 2012, the District issued a \$1,500,000 current revenue anticipation note to Park National Bank to provide funds for current expenses. The note had an interest rate of 2.25%.

Changes in the District's short-term obligations during the fiscal year were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Government Activities</b>				
Current Revenue Anticipation Note	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -

**Note 10 - Long Term Obligations**

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Government Activities</b>					
School Facilities Construction					
Mature 10/2023; 3.30%-5.00%	\$ 4,450,000	\$ -	\$ 4,450,000	\$ -	\$ -
Construction & Improvement Refunding Bonds					
Mature 10/2023; 1.00%-3.50%	-	4,194,997	40,000	4,154,997	330,000
Permanent Improvement Tax Anticipation Notes					
Mature 12/2020; 1.00%-4.50%	-	2,000,000	215,000	1,785,000	185,000
<b>Total</b>	<u>\$ 4,450,000</u>	<u>\$ 6,194,997</u>	<u>\$ 4,705,000</u>	<u>\$ 5,939,997</u>	<u>\$ 515,000</u>

The School Facilities Construction Bonds were issued in fiscal year 2002 and the proceeds were used for construction of new school facilities. These bonds are direct obligations of the District for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property within the District.

During fiscal year 2012, the District issued \$4,194,997 in Construction & Improvement Refunding Bonds which consisted of \$4,100,000 in serial bonds and \$94,997 in capital appreciation bonds. The capital appreciation bonds will mature on October 1, 2018. These bonds were purchased at a discount at the time of issuance and, at maturity all compound interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. The maturity amount of these bonds is \$370,000.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 10 - Long Term Obligations (Continued)**

The Construction & Improvement Refunding Bonds were issued to refund the outstanding balance of the School Facilities Construction Bonds (\$4,195,000). This refunding was undertaken to take advantage of lower interest rates. The total debt service payments were reduced by \$460,607 and the present value of this reduction resulted in an economic gain of \$386,857.

During fiscal year 2012, the District also issued \$2,000,000 in Permanent Improvement Tax Anticipation Notes. The proceeds of the notes were used for permanent improvements made by the District. These notes are special obligations of the District for which the receipts of a 4.2 mill permanent improvement levy are pledged and are payable from taxes levied on all taxable property within the District.

Debt service requirements to maturity on the debt, principle and interest, are as follows:

Fiscal Year Ending June 30	Construction & Improvement Refunding Bonds		Permanent Improvement Tax Anticipation Notes		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2013	\$ 330,000	\$ 102,233	\$ 185,000	\$ 48,938	\$ 515,000	\$ 151,171
2014	340,000	98,033	185,000	46,625	525,000	144,658
2015	340,000	92,083	185,000	43,388	525,000	135,471
2016	350,000	85,183	190,000	39,400	540,000	124,583
2017	355,000	78,133	195,000	34,851	550,000	112,984
2018-2022	1,609,997	558,756	845,000	70,701	2,454,997	629,457
2023-2024	830,000	29,225	-	-	830,000	29,225
	<u>\$ 4,154,997</u>	<u>\$ 1,043,646</u>	<u>\$ 1,785,000</u>	<u>\$ 283,903</u>	<u>\$ 5,939,997</u>	<u>\$ 1,327,549</u>

**Note 11 - Lease Obligations**

The District has entered into capitalized leases for copiers and computers. Each lease meets the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." This statement defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

Due to the District reporting on the cash basis of accounting, the accompanying copiers and computers are not reflected as assets and liabilities within the accompanying financial statements. Principal and interest payments associated with outstanding lease obligations are paid by the General Fund.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 11 - Lease Obligations (Continued)**

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30:	Principal	Interest
2013	\$39,582	\$5,553
2014	41,375	3,760
2015	43,250	1,885
2016	18,868	214
Total	<u>\$143,075</u>	<u>\$11,412</u>

**Note 12 - Jointly Governed Organizations**

**A. Southeastern Ohio Voluntary Education Cooperative** The District is a participant in the Southeastern Ohio Voluntary Education Cooperative which is a computer consortium. SEOVEC is an association which services thirty entities within the boundaries of eight counties. These entities consist of public Districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. The governing board of SEOVEC consists of the superintendents from all participating districts.

The continued existence of SEOVEC is not dependent on the District's continued participation and no equity interest exists. The SEOVEC constitution states that any District withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The District's total payments to SEOVEC for fiscal year 2012 were \$55,572. Financial statements for SEOVEC can be obtained from their fiscal agent, the Southeastern Ohio Voluntary Education Cooperative, 221 North Columbus Road, P.O. Box 1250, Athens, Ohio 45701.

**B. Metropolitan Educational Council** The District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members, which includes Districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio.

The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating District in Franklin County (18 Districts) and one representative from each county. Each year, the participating Districts pay a membership fee to MEC to cover the costs of administering the program. Financial information may be obtained from the MEC, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 12 - Jointly Governed Organizations (continued)**

**C. Central Ohio Special Education Regional Resource Center** The Central Ohio Special Educational Regional Resource Center (COSERRC) provides special education services at a regional level and assists Districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. There is no financial commitment by the District for its participation in the projects. The District has one representative on the governing board. The District did not make any contributions to COSERRC during the fiscal year. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

**D. School Study Council of Ohio** The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio Districts. The purpose of the Council is to bring about the improvement of education in member school organizations. Districts maintain active membership by paying a yearly membership fee which entitles each District to attend Council meetings and voting privileges.

Districts that elect to be associate members are entitled to attend meetings and participate in Council discussions but are not entitled to vote.

The Board is annually elected from within the Council's active membership. The Board consists of twenty-one members. The District did not make any contributions to the School Study Council of Ohio during the fiscal year. Financial information may be obtained by contacting the School Study Council of Ohio at 4807 Evanswood Drive, Suite 300, Columbus, Ohio 43229.

**Note 13 - Insurance Purchasing Pools**

***Ohio School Boards Association Workers' Compensation Group Rating Plan***

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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

---

**Note 14 - Set asides**

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

The following describes the changes in the year end set-aside:

	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2011	\$ -
Current Year Set-aside Requirement	395,599
Current Year Offsets	(757,779)
Qualifying Disbursements	-
Total	<u>\$ (362,180)</u>

Although the School District had qualifying offsets during the fiscal year that reduced the set-aside amount below zero for the capital improvements set-aside, this amount may not be used to reduce the set aside requirement of future years. The negative balance is therefore not presented as being carried forward to future fiscal years.

**Note 15 - Contingencies**

**A. Grants** The District received financial assistance from federal and state agencies in the form of grants. The cash disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at fiscal year-end.

**B. Student Attendance Data Review** The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 15 - Contingencies (Continued)**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School.

District at June 30, 2012, if applicable, cannot be determined at this time.

**C. *Litigation*** The District is currently not a party to any material legal proceedings.

**Note 16 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance - Budget and Actual (non-GAAP Budgetary Basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding fiscal year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted or assigned fund balance (cash basis).

In addition, differences may exist based on fund type reporting criteria between the cash basis financial statements and budgetary basis financial statements. The budgetary comparison information presented at June 30, 2012 for the General Fund represents the legally adopted budget for the General Fund without modification for any other funds combined with the General Fund for reporting purposes. The District's Public School Support Fund is presented as part of the School District's General Fund in the fiscal year-end financial statements.

	General Fund	District Managed Student Activity Fund
Change in Fund Balance	\$26,702	\$9,403
Public School Support Fund	(5,371)	
Encumbrances	(4,220)	(37,524)
Change in Fund Balance - Budgetary Basis	\$17,111	(\$28,121)

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

---

**Note 17 - State School Funding**

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 its future State funding and on its financial operations.

**Note 18 - Fund Reclassification**

The District's District Managed Student Activity Fund meets the major fund reporting criteria in fiscal year 2012, whereas in fiscal 2011 it did not. The fund was classified as an Other Governmental Fund in the prior year.

The effect of this reclassification is presented below:

	District Managed Student Activity Fund	Other Governmental Funds
	<u>                    </u>	<u>                    </u>
Fund Balances, June 30, 2011	\$ -	\$ 212,100
Fund Reclassification	111,461	(111,461)
	<u>111,461</u>	<u>(111,461)</u>
Fund Balances, July 1, 2011	<u>\$ 111,461</u>	<u>\$ 100,639</u>

**This page intentionally left blank.**

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

**FEDERAL GRANTOR**

*Pass-Through Grantor*  
Program Title

Grant  
Year

Federal  
CFDA  
Number

Receipts

Disbursements

**U.S. DEPARTMENT OF AGRICULTURE**

*Passed through Ohio Department of Education:*

Child Nutrition Cluster:

Non-Cash Assistance (Food Distribution):

School Breakfast Program

2011/2012

10.553

\$ 55,733

\$ 55,733

National School Lunch Program

2011/2012

10.555

13,933

13,933

Non-Cash Assistance Subtotal

69,666

69,666

Cash Assistance:

School Breakfast Program

2011/2012

10.553

258,956

258,956

National School Lunch Program

2011/2012

10.555

434,389

434,389

Cash Assistance Subtotal

693,345

693,345

Total Child Nutrition Cluster

763,011

763,011

Total U.S. Department of Agriculture

763,011

763,011

**U.S. DEPARTMENT OF EDUCATION**

*Passed Through Ohio Department of Education:*

Title I, Part A Cluster:

Title I Grants to Local Educational Agencies

2012

84.010

344,962

344,780

Special Education Cluster (IDEA)

Special Education, Grants to States (IDEA Part B)

2012

84.027

445,603

444,849

Special Education Preschool Grants

2012

84.173

13,207

13,207

Total Special Education Cluster (IDEA)

458,810

458,056

Improving Teacher Quality State Grants

2011

84.367

20,895

20,985

2012

74,935

74,934

Total Improving Teacher Quality State Grants

95,830

95,919

ARRA - Race-to-the-Top Incentive Grants, Recovery Act

Race to the Top

2011

84.395A

14,426

Ohio Appalachian Collaborative (OAC)

2011

84.395

80,438

80,438

Race to the Top

2012

84.395A

100,851

77,519

Ohio Appalachian Collaborative (OAC)

2012

84.395

114,637

86,272

Total ARRA - Race-to-the-Top Incentive Grants, Recovery Act

295,926

258,655

Education Jobs Grant

2012

84.410

677,668

677,668

Total U.S. Department of Education

1,873,196

1,835,078

**Total Federal Awards Receipts and Expenditures**

**\$ 2,636,207**

**\$ 2,598,089**

*The accompanying Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this Schedule.*

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at fair value. The District allocated donated food commodities to the respective programs that benefited from the use of those donated food commodities.



# Dave Yost • Auditor of State

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

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 2013, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2012-01 through 2012-05.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 28, 2013.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

January 28, 2013



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

### Compliance

We have audited the compliance of the Northern Local School District, Perry 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 could directly and materially affect each of the District's major federal programs for the year ended June 30, 2012. The *Summary of Auditor's Results* section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

As described in findings 2012-06 and 2012-07 in the accompanying Schedule of Findings, the District did not comply with requirements regarding cash management applicable to its Special Education Cluster (IDEA) and Education Jobs Grant major federal programs. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could directly and materially affect a major federal program, 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 2012-06 and 2012-07 to be material weaknesses.

The District's responses to the findings we identified are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

January 28, 2013

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified – Special Education Cluster (IDEA) and Education Jobs Grant  Unqualified - Nutrition Cluster and Title I, Part A, Cluster
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under §.510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Nutrition Cluster CFDA #'s 10.553 and 10.555  Title I, Part A Cluster CFDA # 84.010  Special Education Cluster (IDEA) CFDA #'s 84.027 and 84.173  Education Jobs Grant CFDA 84.410
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2012-01**

**Noncompliance Citation**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the District to file its annual financial report pursuant to generally accepted accounting principles. However, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

**Officials' Response:** The District has determined that it is cost prohibitive to prepare complete GAAP statements and has elected to prepare look alike statements that are consistent with GAAP.

**FINDING NUMBER 2012-02**

**Noncompliance Citation**

Ohio Rev. Code Section 9.833(C)(1) states such funds shall be reserved as are necessary, in the exercise of sound and prudent actuarial judgment, to cover potential cost of health care benefits for the officers and employees of the political subdivision. A certified audited financial statement and a report of amounts so reserved and disbursements made from such funds, together with a written report of a member of the American academy of actuaries certifying whether the amounts reserved conform to the requirements of this division, are computed in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles, shall be prepared and maintained, within ninety days after the last day of the fiscal year of the entity for which the report is provided for that fiscal year, in the office of the program administrator described in division (c)(3) of this section.

The actuarial report was provided indicating the minimum requirements under their interpretation of Section 9.833 of the Ohio Revised Code were not satisfied. As of June 30, 2012, the District's reported reserved funds available to pay Incurred But Not Report claims was (\$453,839) as determined based upon analysis of historic claims data and generally accepted actuarial principles. Funds were not reserved as necessary to cover potential cost of health care benefits for the officers and employees of the District.

NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-02 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 9.833(C)(1) (Continued)

We recommend that the Board of Education address self-insurance rates and perform appropriate adjustments as needed to ensure that the District has the required reserved funds available to cover current claims and incurred but not reported claims.

**Officials' Response:** The District has raised rates for the self-insurance fund for the 2012-13 school year and will look to make the necessary adjustments to cover both current and incurred but not reported claims.

FINDING NUMBER 2012-03

Noncompliance Citation

Ohio Rev. Code Section 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund is established.

At year-end, the self-insurance fund had a negative fund cash balance of \$435,687. The negative fund cash balance indicates that money from one fund was used to cover the expenses of the self-insurance fund.

We recommend the Treasurer monitor activity in the funds to ensure that money paid into funds are only being used for the purposes for which such funds are established.

**Officials' Response:** The self-insurance fund is being funded at a higher rate to ensure that it can cover all activity.

FINDING NUMBER 2012-04

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from making an expenditure unless it has been properly appropriated.

For the fiscal year ending June 30, 2012, expenditures plus encumbrances exceeded appropriations plus prior year encumbrances in the following funds on the School District's accounting system:

<u>Fund</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Self Insurance	\$3,882,548	\$4,227,798	(\$345,250)

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2012-04 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)**

The District's failure to limit expenditures to the amounts appropriated could result in deficit spending.

We recommend the Treasurer monitors appropriations to ensure that expenditures do not exceed appropriations.

**Officials' Response:** The District will monitor and limit expenditures to stay within appropriations.

**FINDING NUMBER 2012-05**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(3) allows fiscal officers to prepare so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, foot items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

While the District followed procedures it believed would result in the effective certification of appropriations, certain provisions of the aforementioned budgetary law were not met for the transactions we tested. One hundred percent of the super blanket certificates tested extended beyond the fiscal year end. As a result, the availability of funds was not properly certified through the use of super blanket certificates.

We recommend the Board of Education establish procedures to assure that super blanket certificates do not extend beyond the end of the fiscal year.

**Officials Response:** The District will establish the use of super blanket certificates and not allow them to extend past the end of the year.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2012-06
<b>CFDA Title and Number</b>	Special Education Cluster (IDEA) – CFDA #84.027 and 84.173 and Education Jobs Grant - CFDA 84.410
<b>Federal Award Number / Year</b>	2011/2012
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-06 (Continued)

**Noncompliance and Material Weakness – Cash Management**

34 CFR 80.21(c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. 34 CFR 80.20(b)(7) states procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 CFR 80.21). To receive approval consideration, cash requests must be made *for immediate needs for the month requested*. Ohio Department of Education Project Cash Request Instructions state the Ohio Department of Education (ODE) will initiate the first payment of project funds to school districts and agencies upon project approval. Subsequent payments must be requested as needed and for immediate cash needs. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the "Cash Management Act" 31 CFR part 205, the time lapsed between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds must be expended within the period of time for which cash is requested.

For the Special Education Cluster program, two of the seven drawdowns (29%) were not spent within the month for which they were requested. Based on our testing utilizing the one percent average 2012 U.S. Treasury Current Value of Funds Rate, we estimate the imputed interest to be less than \$100 for the fiscal year ended June 30, 2012.

For the Education Jobs Fund, four of the seven drawdowns (57%) were not spent within the month for which they were requested. Based on our testing utilizing the one percent average 2012 U.S. Treasury Current Value of Funds Rate, we estimate the imputed interest to be \$268 for the fiscal year ended June 30, 2012.

We recommend the District monitor the cash balances in these funds to determine when these expenditures should be made and/or how much cash to request. This will help ensure that monies drawn down are expended within the required time frame. These funds should be expended by the end of the month for which they are requested.

**Officials' Response:** The District will monitor cash balances and expenditures and ensure that all monies are spent by the end of the month for which it is requested.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2012-07
<b>CFDA Title and Number</b>	Education Jobs Grant - CFDA 84.410
<b>Federal Award Number / Year</b>	2011/2012
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance and Material Weakness – Cash Management**

Ohio Department of Education (ODE) project cash request instructions – GM/PCR-1, Revised 8/3/04, CI rev 4/20/09, required the School District to report total expenditures as “the total amount of project cash expended as of the date of this request” and cash balance on hand as “the unexpended project cash on hand.” In addition, ODE allows cash to be “requested for a maximum of one month plus, if applicable, any negative balance. The cash must be expended within the period of time for which it is requested.” Subsequent payments must be requested as needed and for immediate cash needs. Furthermore, ODE requires the School District to “provide justification of need for all requests in excess of 10 percent of the approved amount or where the remaining cash balance exceeds 10 percent of the approved budget and a request for an additional advance is made.” The School District was required to request from ODE the payment of project funds utilizing a Project Cash Request form (PCR).

For the two tested PCRs for the Education Jobs Grant, we noted that cash basis expenditures reported on the PCRs did not agree to the expenditures reported on the District's underlying financial records as follows:

<u>PCR Date</u>	<u>Cash Basis Expenditures Reported Per PCR</u>	<u>Cash Basis Expenditures per District Accounting System</u>	<u>Variance</u>
December 2011:			
Salaries	\$125,286	\$89,903	\$35,383
Benefits	88,615	43,345	45,270
Total	<u>\$213,901</u>	<u>\$133,248</u>	<u>\$80,653</u>
March 2012:			
Salaries	\$374,273	\$211,493	\$162,780
Benefits	188,844	81,582	107,262
Total	<u>\$563,117</u>	<u>\$293,075</u>	<u>\$270,042</u>

NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012  
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-07 (Continued)

**Noncompliance and Material Weakness – Cash Management (ODE) Project Cash Request Instructions (Continued)**

Variances occurred because the Treasurer reported actual cash basis expenditures to date, plus coding corrections to move payroll disbursements that were originally charged to the General Fund in to the Education Jobs Fund that she expected to post to the system sometime after the PCR date, plus expected upcoming payroll disbursements. However, our review of the District's accounting system financial reports noted that coding corrections were not posted within a reasonable time after the PCR receipt, and thereby the request for additional funds to cover expected coding corrections was not supported. Furthermore, documentation was not maintained to support exact amounts reported as cash basis expenditures on the PCRs. As a result, cash basis expenditures reported on PCRs was overstated which also caused the cash balance on hand to be inaccurately reported on the PCRs. For December 2011 and March 2012, a negative cash balance on hand was reported on the PCRs and was included in the total amount requested. Consequently, more funds were requested than were actually needed for immediate cash needs for the period of time specified on the PCR. Since excess funds were requested, the receipts were not spent by the end of the month for which they were requested, and therefore, a citation of 34 CFR Section 80.20(b)(7) is included in our Schedule of Findings as Finding Number 2012-06. In addition, the actual cash balance on hand per the District's accounting system at the date of completion of the March 2012 PCR was \$211,528 which exceeds 10 percent of the available budget, however a written explanation was not provided on the March 2012 PCR.

We recommend the Treasurer ensure cash basis expenditures and cash on hand reported on PCRs are accurate and agree to the underlying financial records. Amounts requested should be limited to immediate cash needs, and the Treasurer should maintain documentation to support the cash basis expenditure and cash balance on hand amounts reported on PCRs. In addition, a written explanation should be provided on the PCR each time the cash balance on hand exceeds 10 percent of the approved budget and a request for an additional advance is made.

**Officials' Response:** The District will change its PCR processing to comply with recommendations as presented and documentation will be attached on each PCR for future referencing.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2011-01	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B) for not preparing the annual financial report pursuant to generally accepted accounting principles.	No	Not Corrected.  This item is repeated in the accompanying Schedule of Findings as Finding Number 2012-01.
2011-02	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.10(H) for having a negative fund balance in the Self-Insurance Fund.	No	Not Corrected.  This item is repeated in the accompanying Schedule of Findings as Finding Number 2012-03.
2011-03	Material noncompliance and significant deficiency was issued regarding Special Education, State Fiscal Stabilization and Title I ARRA 1512 reporting requirements.	Yes	



# Dave Yost • Auditor of State

**NORTHERN LOCAL SCHOOL DISTRICT**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 12, 2013**