



**Auditor of State
Betty Montgomery**

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types and Similar Fiduciary Funds - For the Year Ended June 30, 2003	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Funds - For the Year Ended June 30, 2003	4
Combined Statement of Receipts - Budget and Actual For the Year Ended June 30, 2003	5
Combined Statement of Disbursements and Encumbrances Compared With Expenditure Authority - For the Year Ended June 30, 2003	6
Notes to the Financial Statements	9
Schedule of Federal Awards Expenditure - For the Year Ended June 30, 2003.....	26
Notes to the Schedule of Federal Awards Expenditures.....	27
Independent Accountants' Report on Compliance and On Internal Control Required By <i>Government Auditing Standards</i>	29
Independent Accountants' Report on Compliance with Requirements Applicable To Each Major Federal Program and Internal Control over Compliance in Accordance With OMB Circular A-133.....	31
Schedule of Findings.....	33
Schedule of Prior Audit Findings	35

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Bellefontaine City School District
Logan County
820 Ludlow Road
Bellefontaine, Ohio 43311

To the Board of Education:

We have audited the accompanying financial statements of the Bellefontaine City School District, Logan County, (the "District"), as of and for the fiscal year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

As discussed in Note 3, during the year-ended June 30, 2003, the District changed its method of accounting for financial reporting which resulted in the restatement of beginning fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

This report is intended solely for the information and use of the audit committee, management, Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 1, 2003

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types		Governmental Fund Types		Fiduciary Funds	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Intergovernmental	\$10,989,905	\$931,664	\$100,768	\$25,171		\$12,047,508
Interest	70,715			11,671	620	83,006
Tuition and Fees	322,026					322,026
Extracurricular Activities		201,791				201,791
Property & Other Local Taxes	6,860,879		1,048,144	222,544		8,131,567
Miscellaneous	85,928	268,212		5,625	500	360,265
Total Cash Receipts	18,329,453	1,401,667	1,148,912	265,011	1,120	21,146,163
Cash Disbursements:						
Instruction:						
Regular	8,266,554	407,172		90,508		8,764,234
Special	2,025,436	382,123			732	2,408,291
Vocational	606,384					606,384
Other	197,939					197,939
Support services:						
Pupils	788,425	18,813			86	807,324
Instructional Staff	823,684	392,348				1,216,032
Board of Education	158,570					158,570
Administration	1,561,004	58,360				1,619,364
Fiscal	356,444		22,956	4,896		384,296
Business	206,952					206,952
Operation and Maintenance of Plant	1,666,357	18,148		258,741		1,943,246
Pupil Transportation	617,384					617,384
Central	221,906	25,090				246,996
Non-Instructional Services	6,490	1,000			1,200	8,690
Extracurricular activities	312,031	176,098				488,129
Capital Outlay	60,180			236,624		296,804
Debt Service:						
Debt Service - Principal			670,000			670,000
Debt Service - Interest			530,511			530,511
Total Cash Disbursements	17,875,740	1,479,152	1,223,467	590,769	2,018	21,171,146
Cash Receipts Over (Under) Cash Disbursement	453,713	(77,485)	(74,555)	(325,758)	(898)	(24,983)
Other Financing Sources and Uses						
Operating Transfers In			94,455			94,455
Operating Transfers Out	(94,455)					(94,455)
Total Other Financing Sources (Uses)	(94,455)	0	94,455	0	0	0
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	359,258	(77,485)	19,900	(325,758)	(898)	(24,983)
Fund Balances at Beginning of Year (Restated Note 3)	4,481,951	388,989	828,785	580,492	30,532	6,310,749
Fund Balances at End of Year	\$4,841,209	\$311,504	\$848,685	\$254,734	\$29,634	\$6,285,766
Reserve for Encumbrances	\$149,739	\$77,850		\$104,002		\$331,591

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Funds		Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	Agency	
Operating Cash Receipts:					
Sales	\$559,943				\$559,943
Charges for Services	72,853	2,291,942			2,364,795
Interest			761		761
Extracurricular				273,645	273,645
Miscellaneous				18,644	18,644
Total Operating Receipts	632,796	2,291,942	761	292,289	3,217,788
Operating Cash Disbursements:					
Salaries	351,144				351,144
Fringe Benefits	168,019				168,019
Purchased Services	3,151	2,119,805			2,122,956
Materials and Supplies	417,064	2,041			419,105
Capital Outlay	3,130				3,130
Other	726		2,400	284,616	287,742
Total Operating Disbursements	943,234	2,121,846	2,400	284,616	3,352,096
Operating Income (Loss)	(310,438)	170,096	(1,639)	7,673	(134,308)
Non-Operating Cash Receipts:					
Interest	355	4,976			5,331
Federal and State Subsidies	357,729				357,729
Total Non-Operating Receipts	358,084	4,976			363,060
Net Income (Loss)	47,646	175,072	(1,639)	7,673	228,752
Fund Balances at July 1 (Restated Note 3)	10,581	442,084	34,467	90,751	577,883
Fund Balances at June 30	<u>\$58,227</u>	<u>\$617,156</u>	<u>\$32,828</u>	<u>\$98,424</u>	<u>\$806,635</u>
Reserve for Encumbrances	<u>\$32,518</u>			<u>\$3,185</u>	<u>\$35,703</u>

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$18,318,772	\$18,329,453	\$10,681
Special Revenue Funds	2,074,781	1,401,667	(673,114)
Debt Service Funds	1,243,367	1,243,367	0
Capital Project Funds	267,835	265,011	(2,824)
Proprietary:			
Enterprise Funds	978,916	990,880	11,964
Internal Service Fund	2,278,664	2,296,918	18,254
Fiduciary:			
Expendable Trust Funds	1,071	1,120	49
Non-Expendable Trust Funds	711	761	50
Total (Memorandum Only)	<u>\$25,164,117</u>	<u>\$24,529,177</u>	<u>(\$634,940)</u>

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	2003 <u>Appropriations</u>	<u>Total</u>
Governmental:			
General Fund	\$143,017	\$18,893,735	\$19,036,752
Special Revenue Funds	91,102	2,293,775	2,384,877
Debt Service Funds		1,225,511	1,225,511
Capital Project Funds	264,882	515,732	780,614
Proprietary:			
Enterprise Funds	14,964	911,656	926,620
Internal Service Fund		2,352,041	2,352,041
Fiduciary:			
Expendable Trust Funds		28,185	28,185
Non-Expendable Trust Funds		34,847	34,847
Total (Memorandum Only)	<u>\$513,965</u>	<u>\$26,255,482</u>	<u>\$26,769,447</u>

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

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At June 30, 2003</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$17,970,195	\$149,739	\$18,119,934	\$916,818
1,479,152	77,850	1,557,002	827,875
1,223,467		1,223,467	2,044
590,769	104,002	694,771	85,843
943,234	32,518	975,752	(49,132)
2,121,846		2,121,846	230,195
2,018		2,018	26,167
2,400		2,400	32,447
<u>\$24,333,081</u>	<u>\$364,109</u>	<u>\$24,697,190</u>	<u>\$2,072,257</u>

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**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Bellefontaine City School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the state of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms by the citizens of the District.

The District serves an area of approximately 31 square miles in Logan County, including all of the City of Bellefontaine, Ohio, and portions of surrounding townships.

The District is the 173 largest in the state of Ohio (among 612 school districts) in terms of enrollment. It currently operates four elementary schools, one middle school and one comprehensive high school. The District is staffed by 121 non-certificated employees, 219 certificated employees to provide services to approximately 2,855 students and other community members.

A. 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 Bellefontaine City School District, this includes general operations, food service and student related activities of the District.

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

The District is associated with three jointly governed organizations, one joint venture, and one insurance purchasing pool. These organizations include the Ohio Hi-Point Career Center, West Central Ohio Special Education Regional Resource Center, Logan County Education Foundation, the Joint Recreation District (Blue Jacket Park) and the Sheakley Group Worker's Compensation Group Rating Plan.

These organizations are presented in Notes 10, 11, and 12 to the financial statements.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principals. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Types

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

Enterprise Funds

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

Internal Service Funds

The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

3. Fiduciary Fund Type

Fiduciary Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

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

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

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

5. Budgetary Compliance

The District did not encumber all expenditures as required by Ohio Rev. Code Section 5705.41(D). The District had negative cash balances in several funds throughout the year which violated the requirements of Ohio Rev. Code Section 5705.10.

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change has the following effect on fund balance types as previously reported:

	Fund Balance/ Retained Earnings June 30, 2002	Accrual Adjustments	Restated Cash Fund Balance, July 1, 2002
General	\$ 2,444,792	\$ 2,037,159	\$ 4,481,951
Special Revenue	296,934	92,054	388,989
Debt Service	886,765	(57,979)	828,785
Capital Project	488,585	91,907	580,492
Enterprise	(1,160)	11,741	10,581
Expendable Trust	39,677	(9,145)	30,532
Internal Service	129,277	312,807	442,084
Non-Expend Trust	34,467	0	34,467
Agency	0	90,751	90,751

4. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to passbook accounts.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 may be invested in the following obligations.

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)

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

As of June 30, 2003, the District had \$100 in undeposited cash on hand which is included in the fund balance.

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At June 30, 2003, the carrying amount of the District's deposits was \$2,513,852 and the bank balance was \$2,637,612. Of the bank balance, \$475,000 was covered by federal depository insurance and \$2,162,612 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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

The District's investment in Star Ohio, which is the State Treasurer's Investment Pool, is not categorized because it is not evidenced by securities that exist in physical or book entry form. The investment pool pro rates based on invested balances.

<u>Investments</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Cost Value</u>	<u>Fair Value</u>
Overnight Repurchase Agreements		\$3,103,686	\$3,103,686	\$3,103,686
Liquid Asset Management		1,260,169	1,260,169	1,258,996
Money Market Account	10,064		10,064	10,064
Total Investments Categorized	<u>\$10,064</u>	<u>\$4,363,855</u>	<u>\$4,373,919</u>	4,372,746
STAR Ohio				204,531
Total All Investments				<u>\$4,577,277</u>

5. PROPERTY TAX

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due during February with the remainder payable during July. Under certain circumstances, State statute permits alternate payment dates to be established.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. PROPERTY TAX (Continued)

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Logan County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end.

The amount available as an advance at June 30, 2003 was \$431,242 in the general fund, \$75,771 in the debt service fund, and \$15,784 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$203,108,660	78.26 %	\$210,223,170	78.21 %
Public Utility Personal	9,856,850	3.80	10,421,720	3.88
Tangible Personal Property	46,561,066	17.94	48,147,500	17.91
Total	\$259,526,576	100.00 %	\$268,792,390	100.00 %
Tax rate per \$1,000 of assessed valuation	\$49.53		\$49.53	

6. DEBT OBLIGATIONS

All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Fund.

The source of payment is derived from current 2.70 mill and current 2.60 mill bonded debt facilities tax levies.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

A. The following is a description of the District's bonds outstanding as of June 30, 2003:

1. 1993 Advanced Refunding Bond Issue \$4,923,935

In December 1993, the District issued \$4,923,935 bonds for the purpose of advance refunding bonds titled "Bellefontaine City School District, Logan County, Ohio General Obligation Bonds", dated March 1, 1990, in the original principal amount of \$5,300,000, issued for the purpose of renovating the middle school, furnishing and equipping the same and improving the site thereof, and removing asbestos at various buildings. The bonds were issued for an eighteen year period with final maturity at December 1, 2011. The bond issue consisted of \$4,000,000 of Current Interest Serial Bonds with interest rates ranging from 2.65 to 4.40% and \$923,935 of Capital Appreciation Serial Bonds with stated interest rates ranging from 10.3 to 10.4% (or the rate that, when applied to the original principal amount, compounded semi-annually results in the maturity amount) for an approximate yield to maturity of 5.1% to 5.6%. The bonds will be retired from the debt service fund.

The Current Interest Serial Bonds will bear interest, payable on June 1 and December 1 of each year, beginning June 1, 1994 until maturity or earlier redemption.

The Capital Appreciation Bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The Capital Appreciation Bonds will mature in fiscal years 2004 to 2011. The maturity amount of the bonds is \$3,900,000.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 07/01/02</u>	<u>Retired in 2003</u>	<u>Bonds Outstanding 06/30/03</u>
Facilities Serial Bond	4.87%	11/93	12/11	\$925,000	\$455,000	\$470,000
Capital Appreciation Bond	Various	11/93	12/4- 12/11	* 923,935	0	923,935
Total Bond Issue				<u>\$1,848,935</u>	<u>\$455,000</u>	<u>\$1,393,935</u>

*The beginning balance for the capital appreciation bonds is restated from prior year to reflect the change in accounting methods as described in Note 2.

2. 1999 School Facilities Construction and Improvement Bonds

On June 15, 1999, Bellefontaine City School District issued \$9,070,000 in voted general obligation bonds for additions and renovations to the High School. The bond issue consists of \$5,215,000 in serial bonds and \$3,855,000 in term bonds. The serial bonds have interest rates from 3.75% to 5.75% and yield rates from 3.75% to 5.3%. The serial bonds mature each year beginning in 2000 and ending 2019. The term bonds have a 5.5% interest rate with final maturity on December 1, 2026. Bonds maturing after December 1, 2009 are subject to redemption at the option of the District at the redemption prices equal to the following percentages of the principal amount redeemed plus accrued interest to the date of redemption.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

<u>Redemption Period</u>	<u>Redemption Price</u>
December 1, 2009 through November 30, 2010	101%
December 1, 2010 and thereafter	100%

The term bonds maturing on December 1, 2019* are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2014	\$335,000
2015	350,000
2016	370,000
2017	390,000
2018	415,000

The remaining principal amount of such Bonds (\$435,000*) will mature at stated maturity on December 1, 2019*.

The term bonds maturing on December 1, 2026* are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2019	\$460,000
2020	485,000
2021	510,000
2022	535,000
2023	560,000
20241	590,000

The remaining principal amount of such Bonds (\$620,000*) will mature at stated maturity on December 1, 2026*. Principal amounts above indicated with (*) are preliminary amounts and are subject to change.

Purpose	Interest Rates	Issue Date	Maturity Date	Bonds Outstanding 07/01/02	Issues in 2003	Retired in 2003	Bonds Outstanding 6/30/03
Facilities	5.35%	06/99	12/26	\$9,020,000	\$0	\$135,000	\$8,885,000

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

Year(s) Ending June 30	Principal on General Obligation Bonds	Interest on General Obligation Bonds	Total
2004	\$615,000	\$489,955	\$1,104,955
2005	310,049	803,001	1,113,050
2006	334,619	810,686	1,145,305
2007	332,007	819,228	1,151,235
2008	341,870	814,265	1,156,135
2009-2013	1,685,390	3,615,192	5,300,582
2014-2018	1,770,000	1,619,394	3,389,394
2019-2023	2,510,000	1,001,694	3,511,694
2024-2027	2,380,000	270,600	2,650,600
Total	<u>\$10,278,935</u>	<u>\$10,244,015</u>	<u>\$20,522,950</u>

C. The following is a description of the District's long-term note transactions for the year ended June 30, 2003:

Purpose	Interest Rates	Issue Date	Maturity Date	Bonds Outstanding 07/01/02	Issues in 2003	Retired in 2003	Bonds Outstanding 6/30/03
Energy Conservation	4.90%	12/95	12/05	\$335,000	\$0	\$80,000	\$255,000

D. The following is a summary of the District's future annual debt service requirements to maturity for House Bill 264 energy conservation notes:

Year Ending June 30	Principal on Energy Conservation Notes	Interest on Energy Conservation Notes	Total
2004	80,000	10,535	90,535
2005	85,000	6,493	91,493
2006	<u>90,000</u>	<u>2,205</u>	<u>92,205</u>
Total	<u>\$255,000</u>	<u>\$19,233</u>	<u>\$274,233</u>

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT

A. Public Liability

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles.

Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Health Care Benefits

The District has established a Self-Insurance Fund in the Internal Service Fund Type to account for and finance its uninsured risks of loss for health care. Under this program, the Self-Insurance Fund provides coverage for up to a maximum of \$60,000 per claim per employee. The District purchases commercial insurance for claims in excess of coverage provided by this Fund and for other risks of loss including annual aggregate stop loss coverage for annual claims paid. Settled claims have not exceeded this commercial insurance coverage in any of the past three fiscal years.

The District is also self insured for employee health care benefits. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from interfund rates that are charged based on claims approved by the claims administrator. A comparison of Self Insurance Fund cash balance and estimated liability as of June 30, follows

	<u>2003</u>	<u>2002</u>
Cash	\$617,156	\$442,084
Estimated Liabilities	\$339,545	\$313,302

Estimated liabilities are based on a calculation of fiscal year paid claims multiplied times a computation factor.

C. Workers' Compensation

The District participates in the Sheakley Group Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of the Sheakley Group provides administrative, cost control, and actuarial services to the Plan.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement System.

STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, OH 43215-3371.

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion to fund pension obligations was 9.5 percent.

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

The District's required contributions for pension obligations to the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,312,194, \$912,041, and \$875,740 respectively; 100 percent has been contributed for fiscal year 2003, 2002 and 2001. Contributions to the DCP and CP for fiscal year ended June 30, 2003, were \$6,720 made by the District and \$18,077 made by the plan members.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$66,709, \$40,931 and \$30,256, respectively.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POST RETIREMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount was \$100,938.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. POST RETIREMENT BENEFITS (Continued)

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

At June 30, 2003, the employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the District, the amount to fund health care benefits, including surcharge, was \$47,067 during the 2003 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002 SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Career Center

The Ohio Hi-Point Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Career Center, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311-9594.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Logan County Education Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Logan County Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Adelsberger, who serves as Financial Advisor, 2626 County Road 18, Bellefontaine, Ohio 43311.

11. JOINT VENTURE

Joint Recreation District

The Joint Recreation District (JRD) was established June 25, 1984. The JRD is operated by a seven member Board consisting of three representatives from both the Bellefontaine City School District and the City of Bellefontaine.

The remaining member is selected by the six appointed Board members. The JRD operates the Blue Jacket Park which is adjacent to the Bellefontaine City School District and for which the District owns the land. The operating budget for the JRD is passed by the City of Bellefontaine and is submitted to the JRD Board. To obtain financial information write to the City of Bellefontaine, Tim Decker, who serves as Auditor, at 135 North Detroit Street, Bellefontaine, Ohio 43311.

12. GROUP INSURANCE PURCHASING POOL

The Sheakley Group Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Sheakley Group Workers' Compensation Group Rating Plan (Plan) was established through the Sheakley Group as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the plan.

13. STATUTORY RESERVES

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

13. STATUTORY RESERVES (Continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003. Senate Bill 345 eliminated the requirement to set aside additional reserves for budget stabilization. The reserve for budget stabilization balance represents the set aside required for Bureau of Workers' Compensation refunds.

For fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>
Set-Aside Cash Balance as of June 30, 2002	\$ 39,023	\$ 0	\$ 80,693
Required Set-Aside	389,158	389,158	0
Offsets	0	(241,226)	
Qualifying Expenditures	<u>(215,881)</u>	<u>(147,932)</u>	<u>0</u>
Excess Expenditures Available for Carry-over to Subsequent Year	<u>\$ 212,300</u>	<u>\$ (88,691)</u>	<u>\$ 80,693</u>

14. CONTINGENCIES

A. Grants

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

B. Litigation

The District became involved in litigation as a defendant for an incident occurring after fiscal year end. The litigation is in the fact finding stages and the potential outcome cannot be determined at this time. The District is of the opinion that any current or future claims will either result in a favorable outcome or be significantly covered by current insurance policies, so as not to materially affect the overall financial position of the District.

C. State School Funding Decision

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

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

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation		10.550		\$97,869		\$97,869
School Breakfast Program	05-PU 02 05-PU 03	10.553	11,639 38,291		11,639 38,291	
Total School Breakfast program			49,930		49,930	
National School Lunch Program	LL-P4-02 LL-P4 03	10.555	65,967 225,763		65,967 225,763	
Total National School Lunch Program			291,730		291,730	
Total U.S. Department of Agriculture - Nutrition Cluster			341,660	97,869	341,660	97,869
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 02 C1-S1 03	84.010	50,897 242,799		59,448 266,333	
Total Title I Grants to Local Educational Agencies			293,696		325,781	
Special Education Grants to States	6B-SF 02 6B-SF 03	84.027	136,488 139,329		145,018 140,207	
Total Special Education Grants to States			275,817		285,225	
Safe and Drug Free Schools and Communities_State Grants						
Title IV, Part A, Subpart 1 of ESEA	DR-S1 02 DR-S1 03	84.186			4,135 5,922	
Total Safe and Drug Free Schools and Communities_State Grants			6,185		10,057	
Goals 2000 - State and Local Education						
Systemic Improvement Grants	G2-S1 01 G2-S1 02	84.276			40 9,136	
Total Goals 2000 Grants - State and Local					9,176	
Eisenhower Professional Development State Grants	MS-S1 02	84.281	(8,101)		3,522	
Innovative Education Program Strategies	C2-S1 01 C2-S1 02 C2-S1 03	84.298			350 3,775 11,481	
Total Innovative Education Program			2,851		15,606	
Technology Literacy Challenge Fund Grants	TF-V2 00 TF-VL 00 TJ-S1 03	84.318			247 198 986	
Total Technology Literacy Challenge Fund Grants			1,896		1,431	
Class Size Reduction	CR-S1 02	84.340			2,167	
Improving Teacher Quality State Grants	TR-S1 03	84.367	34,209		3,974	
School Renovation Grants	AT-S1-02 AT-S2-02 AT-S3-02 No #	84.352A			194 1,225 1,225	
Total School Renovation Grants			17,070		1,419	
Total U.S. Department of Education			631,952		658,358	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>(Passed through Logan County Mentally Retarded and Developmental Disabilities)</i>						
Medical Assistance Program (Medicaid: Title XIX)		93.778	113,500		113,500	
U. S. DEPARTMENT OF LABOR						
School To Work	WK-BE 03	17.249			609	
Total Federal Assistance			<u>\$1,087,112</u>	<u>\$97,869</u>	<u>\$1,114,127</u>	<u>\$97,869</u>

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

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- NUTRITION CLUSTER

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

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

NOTE C -- MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D -- NEGATIVE RECEIPTS

The negative receipt in the Eisenhower Professional Development State grant represents the elimination of this grant. This receipt was transferred into the Improving Teacher Quality State grants.

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**Auditor of State
Betty Montgomery**

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

Bellefontaine City School District
Logan County
820 Ludlow Road
Bellefontaine, Ohio 43311

To the Board of Education:

We have audited the accompanying financial statements of the Bellefontaine City School District, Logan County, (the "District"), as of and for the year ended June 30, 2003 and have issued our report thereon dated December 1, 2003, which noted the District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 1, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-004.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 1, 2003.

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



Betty Montgomery
Auditor of State

December 1, 2003



**Auditor of State
Betty Montgomery**

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

Bellefontaine City School District
Logan County
820 Ludlow Road
Bellefontaine, Ohio 43311

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 1, 2003.

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



Betty Montgomery
Auditor of State

December 1, 2003

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Medical Assistance Program Medicaid: Title XIX: CFDA # 93.778 & Special Education Grants to States Title VI-B: CFDA # 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2003-001

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 Administrative 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 prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares 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 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.

The District should prepare their financial statements in accordance with generally accepted accounting principles.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.10 states that money that is paid to into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses of another fund. The District had negative cash fund balances throughout the year in the following funds:

Fund	Date and Fund Balance		
	December 2002	May 2003	June 2003
Special Revenue Work Study	(\$1,995)	(\$935)	
Special Revenue Sloan Foundation #0110	(18,102)		
Special Revenue Sloan Foundation #0210	(6,748)	(5,068)	(5,068)
Special Revenue Sloan Foundation #0310		(21,755)	(25,594)
Special Revenue EMIS	(8,864)	(5,808)	
Special Revenue Title VI #0203			(8,630)
Special Revenue Title I #0102	(21,402)		
Special Revenue Title I #0203			(23,534)
Special Revenue Drug Free Grant #0102	(2,933)	(1,838)	(1,822)
Special Revenue Drug Free Grant #0203		(2,459)	
Enterprise Food Service	(93,838)	(67,161)	
Enterprise Uniform School Supplies	(26,705)	(18,725)	

The District should implement procedures to identify those funds that may develop a negative balance. Money should then be transferred or advanced into those funds to prevent a negative balance.

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

FINDING NUMBER 2003-003

Ohio Rev. Code 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance if approval is not made within 30 days; there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 for school districts, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Twenty five percent of the transactions tested were not certified by the Treasurer prior to making orders for the expenditure of District funds. In addition, neither of the two exceptions above were utilized for these transactions. Procedures should be implemented not only to help ensure compliance with this requirement, but to help prevent the unauthorized obligation of District funds.

FINDING NUMBER 2003-004

Monitoring of Budget Versus Actual Activity and Legal Level of Control

To effectively manage the financial resources of an entity, the governing body should frequently receive and approve financial reports that reflect budget versus actual revenues and expenditures. In addition, the governing body should adopt appropriations (budgeted expenditures) at a level that provides for a precise degree of control. In fiscal year 2003, the District adopted appropriations for all funds at the fund level and only received budget versus actual reports for the General Fund.

The Board's failure to adopt appropriations at a level lower than the fund level weakens their control over the financial activity of the District. The Board's ability to monitor its financial objectives and to identify potential violations of budgetary laws is inhibited when they do not receive budget versus actual report for all funds.

The Treasurer should periodically provide the Board with budget versus actual reports for all District funds. Also appropriations should be adopted at a level lower than the fund level, at least for those funds with critical District operations.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10246-001	Ohio Revised Code 5705.10 (Negative fund balances)	No	Repeated as Finding 2003-002.



**Auditor of State
Betty Montgomery**

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BELLEFONTAINE CITY SCHOOL DISTRICT

LOGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2004**