



**Auditor of State
Betty Montgomery**

NORTH BASS LOCAL SCHOOL DISTRICT

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

North Bass Local School District
Ottawa County
515 Kenny Road, P.O. Box 8
Isle Saint George, Ohio 43436-9999

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 North Bass Local School District, Ottawa County (the District), as of and for the year ended June 30, 2003, which collectively comprise the 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 *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Bass Local School District, Ottawa County, Ohio, as of June 30, 2003, the respective changes in financial position, thereof and the respective budgetary comparisons for the General and Rural Education Achievement funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

June 9, 2005

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

The discussion and analysis of North Bass Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2003 are as follows:

- For fiscal year 2003, there was an 18 percent increase in net assets. The increase is reflected as part of restricted net assets and can be attributed to a federal government grant, Rural Education Achievement Program.
- The School District has the following unique characteristics due to its geographic nature:
 - The School District's geographic boundary is the Isle St. George, a 670 acre island in Lake Erie;
 - The School District is the smallest operating school district in the United States;
 - The School District is Ohio's only operating one-room schoolhouse;
 - The School District is Ohio's only operating K-8 school district;
 - High school students are transported daily via airplane to Put-In-Bay or Danbury Local School Districts;
 - High school students are provided education on a tuition contract basis to their receiving school district;
 - The School District has one full-time employee, the teacher;
 - The School District has a part-time resident clerk/treasurer;
 - The School District has shared administrative support from the Superintendent of the Port Clinton City School District;
 - The majority of the Isle St. George, or 90 percent of the School District, has been purchased by the State of Ohio and will soon become tax-exempt property. The future of the school and the School District is tentative.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand North Bass Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)

financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in a single column. For North Bass Local School District, the General Fund and the Rural Education Achievement Program Fund are the most significant funds.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's geographic location, property tax base, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here and include instruction and support services.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses a number of funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Rural Education Achievement Program Fund.

All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002:

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)

Table 1
Net Assets

	Governmental Activities	
	2003	2002
<u>Assets:</u>		
Current and Other Assets	\$122,332	\$104,568
Capital Assets, Net	18,744	20,964
Total Assets	<u>141,076</u>	<u>125,532</u>
<u>Liabilities:</u>		
Current and Other Liabilities	29,582	31,925
Long-Term Liabilities	909	0
Total Liabilities	<u>30,491</u>	<u>31,925</u>
<u>Net Assets:</u>		
Invested in Capital Assets	18,744	20,964
Restricted	32,822	12,031
Unrestricted	59,019	60,612
Total Net Assets	<u>\$110,585</u>	<u>\$93,607</u>

Total assets increased \$15,544 due to a federal government grant, Rural Education Achievement Program. This grant is also reflected in the increase in restricted net assets.

Table 2 reflects the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program Revenues:	
Operating Grants and Contributions	<u>\$33,590</u>
General Revenues:	
Property Taxes	16,949
Grants and Entitlements	136,034
Interest	489
Miscellaneous	1,096
Total General Revenues	<u>154,568</u>
Total Revenues	<u>188,158</u>

(continued)

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003 (Continued)

<u>Expenses</u>	<u>Governmental Activities 2003</u>
Instruction:	
Regular	\$99,462
Special	160
Support Services:	
Pupils	984
Instructional Staff	291
Board of Education	6,122
Fiscal	21,797
Operation and Maintenance of Plant	26,472
Pupil Transportation	15,892
Total Expenses	171,180
Increase in Net Assets	\$16,978

General revenues are 82 percent of the School District's total revenues, and of the total revenues, unrestricted grants and entitlements are 72 percent. It is obvious that the School District's operations are substantially funded through unrestricted state and federal resources.

Instruction expenses make up 58 percent of total expenses. Further, air transportation is 9 percent of total expenses.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the grants and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2002 have not been made since they are not available.

Table 3
Governmental Activities

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
Instruction:		
Regular	\$99,462	(\$85,711)
Special	160	(82)
Support Services:		
Pupils	984	18,777
Instructional Staff	291	(291)
Board of Education	6,122	(6,122)
Fiscal	21,797	(21,797)
Operation and Maintenance of Plant	26,472	(26,472)
Pupil Transportation	15,892	(15,892)
Total Expenses	\$171,180	(\$137,590)

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)

With over 80 percent of the School District's activities supported through general revenues, it is again evident that operations are enormously dependent on unrestricted state and federal resources.

The School District's Funds

There was very little change in fund balance for any of the School District's major funds from the prior fiscal year.

General Fund Budgeting Highlights

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

During the fiscal year, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$123,508, were below original budgeted revenues, in the amount of \$179,096. Actual revenues of \$159,048 were \$35,540 more than anticipated. The District received significantly more state aid than budgeted.

The School District had originally anticipated an additional appropriation from the Ohio Controlling Board for tuition and air-fare cost for a high school student. These additional resources were not needed.

Original and Final expenditures were budgeted at \$213,758 while actual expenditures were \$156,629. The School District had planned to renovate the school building; however, these renovations were placed on hold due to the unstable future of the School District.

Capital Assets and Debt Administration

At the end of fiscal year 2003, the School District had \$18,744 invested in capital assets (net of accumulated depreciation). The decrease from the prior fiscal year was due to depreciation. There were no additions or deletions to capital assets during fiscal year 2003. Refer to Note 9 of the basic financial statements for further information on capital assets.

The School District does not have any debt. The School District's only long-term liability is for compensated absences. Refer to Note 14 of the basic financial statements for details on long-term obligations.

Current Issues

The North Bass Local School District will be undergoing a significant challenge in the upcoming fiscal year as 90 percent of the real estate on the Isle of St. George has been purchased by the State of Ohio

NORTH BASS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)

through the Ohio Department of Natural Resources and the Conservation Fund. State funding will continue to be instrumental in assuring the School District's existence as the School District transitions over the coming years to eventually consolidate or close operations.

The challenges of running an island school district are further mounted in an era of high stakes testing and assurances. Fiscal integrity of the School District's resources is assured through operation within the scope of the Ohio Revised Code and Administrative Code.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Paul Stonerook, Treasurer, North Bass Local School District, P.O. Box 8, Isle St. George, Ohio 43436.

NORTH BASS LOCAL SCHOOL DISTRICT

Statement of Net Assets June 30, 2003

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$91,163
Intergovernmental Receivable	15,776
Prepaid Items	1,373
Property Taxes Receivable	14,020
Nondepreciable Capital Assets	6,514
Depreciable Capital Assets, Net	12,230
Total Assets	<u>141,076</u>
<u>Liabilities:</u>	
Accounts Payable	836
Accrued Wages and Benefits Payable	9,722
Intergovernmental Payable	5,718
Deferred Revenue	13,306
Long-Term Liabilities:	
Due in More Than One Year	909
Total Liabilities	<u>30,491</u>
<u>Net Assets:</u>	
Invested in Capital Assets	18,744
Restricted For:	
Set Asides	270
Capital Projects	294
Other Purposes	32,258
Unrestricted	59,019
Total Net Assets	<u>\$110,585</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets Governmental Activities
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$99,462	\$13,751	(\$85,711)
Special	160	78	(82)
Support Services:			
Pupils	984	19,761	18,777
Instructional Staff	291		(291)
Board of Education	6,122		(6,122)
Fiscal	21,797		(21,797)
Operation and Maintenance of Plant	26,472		(26,472)
Pupil Transportation	15,892		(15,892)
Total Governmental Activities	\$171,180	\$33,590	(137,590)
 <u>General Revenues:</u>			
Property Taxes Levied for General Purposes			16,949
Grants and Entitlements not Restricted to Specific Programs			136,034
Interest			489
Miscellaneous			1,096
Total General Revenues			154,568
 Change in Net Assets			 16,978
Net Assets Beginning of Year - See Note 3			93,607
Net Assets End of Year			\$110,585

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2003

	General	Rural Education Achievement Program	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$74,035		\$16,858	\$90,893
Intergovernmental Receivable		\$15,776		15,776
Prepaid Items	1,259		114	1,373
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	270			270
Property Taxes Receivable	14,020			14,020
Total Assets	\$89,584	\$15,776	\$16,972	\$122,332
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$822		\$14	\$836
Accrued Wages and Benefits Payable	9,722			9,722
Intergovernmental Payable	4,299			4,299
Deferred Revenue	13,306	\$15,776		29,082
Total Liabilities	28,149	15,776	14	43,939
<u>Fund Balances:</u>				
Reserved for Property Taxes	714			714
Reserved for Capital Improvements	270			270
<u>Unreserved, Reported in:</u>				
General Fund	60,451			60,451
Special Revenue Funds	0		16,664	16,664
Capital Projects Funds	0		294	294
Total Fund Balances	61,435		16,958	78,393
Total Liabilities and Fund Balances	\$89,584	\$15,776	\$16,972	\$122,332

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003

Total Governmental Fund Balances	\$78,393
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,744
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Intergovernmental Receivable	15,776
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.	(1,419)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds: Compensated Absences Payable	<u>(909)</u>
Net Assets of Governmental Activities	<u><u>\$110,585</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2003

	General	Rural Education Achievement Program	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$16,949			\$16,949
Intergovernmental	141,067	\$485	\$12,296	153,848
Interest	489			489
Miscellaneous	1,096			1,096
Total Revenues	<u>159,601</u>	<u>485</u>	<u>12,296</u>	<u>172,382</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	93,168		4,847	98,015
Special	160			160
Support Services:				
Pupils	311	359	314	984
Instructional Staff	0		291	291
Board of Education	6,122			6,122
Fiscal	15,901		3,827	19,728
Operation and Maintenance of Plant	26,310			26,310
Pupil Transportation	15,706	126	60	15,892
Total Expenditures	<u>157,678</u>	<u>485</u>	<u>9,339</u>	<u>167,502</u>
Excess of Revenues Over Expenditures	<u>1,923</u>		<u>2,957</u>	<u>4,880</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In			2,723	2,723
Transfers Out	(2,723)			(2,723)
Total Other Financing Sources (Uses)	<u>(2,723)</u>		<u>2,723</u>	
Net Change in Fund Balances	(800)		5,680	4,880
Fund Balances at Beginning of Year - See Note 3	62,235		11,278	73,513
Fund Balances at End of Year	<u>\$61,435</u>	<u>\$0</u>	<u>\$16,958</u>	<u>\$78,393</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds				\$4,880
Amounts reported for governmental activities on the statement of activities are different because of the following:				
On the statement of activities, the cost of assets is allocated over their estimated useful lives as depreciation expense.				
Depreciation				(2,220)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:				
Intergovernmental				15,776
Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:				
Intergovernmental Payable			(549)	
Compensated Absences Payable			(909)	
			<u> </u>	<u>(1,458)</u>
Change in Net Assets of Governmental Activities				<u><u>\$16,978</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$16,500	\$16,500	\$16,396	(\$104)
Intergovernmental	161,030	101,658	141,067	39,409
Interest			489	489
Miscellaneous	1,566	5,350	968	(4,382)
Total Revenues	<u>179,096</u>	<u>123,508</u>	<u>158,920</u>	<u>35,412</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	111,450	111,450	93,057	18,393
Special			160	(160)
Support Services:				
Pupils	1,700	1,700	311	1,389
Instructional Staff	1,000	1,000		1,000
Board of Education	11,700	11,700	5,912	5,788
Administration	500	500		500
Fiscal	19,000	19,000	15,391	3,609
Operation and Maintenance of Plant	43,300	43,300	26,220	17,080
Pupil Transportation	25,108	25,108	15,578	9,530
Total Expenditures	<u>213,758</u>	<u>213,758</u>	<u>156,629</u>	<u>57,129</u>
Excess of Revenues Over (Under) Expenditures	<u>(34,662)</u>	<u>(90,250)</u>	<u>2,291</u>	<u>92,541</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures			128	128
Transfers Out			(2,723)	(2,723)
Total Other Financing Sources (Uses)			<u>(2,595)</u>	<u>(2,595)</u>
Net Change in Fund Balance	(34,662)	(90,250)	(304)	89,946
Fund Balance at Beginning of Year	<u>74,609</u>	<u>74,609</u>	<u>74,609</u>	
Fund Balance (Deficit) at End of Year	<u>\$39,947</u>	<u>(\$15,641)</u>	<u>\$74,305</u>	<u>\$89,946</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget (Non-GAAP Basis) and Actual Comparison
 Rural Education Achievement Program Fund
 For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over
				(Under)
<u>Revenues:</u>				
Intergovernmental	\$0	\$0	\$485	\$485
<u>Expenditures:</u>				
Current:				
Support Services:				
Pupils	0	0	359	(359)
Pupil Transportation	0	0	126	(126)
Total Expenditures	0	0	485	(485)
Excess of Revenues Over Expenditures	0	0	0	0
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	\$0	\$0	\$0	\$0

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1855. The School District serves an area of approximately one square mile and is located in Ottawa County. The School District is the 612th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by two classified employees, one certified teacher, and one administrative employee who provide services to three students and other community members. The School District currently operates one instructional building.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For North Bass Local School District, this includes general operations of the School District.

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

The School District participates in two jointly governed organizations, the Northern Ohio Educational Computer Association and the Northwest Ohio Special Education Regional Resource Center. These organizations are presented in Note 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of North Bass Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government.

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

Fund Financial Statements

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

B. Fund Accounting

The School 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. All of the funds of the School District are governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's two major funds are the General Fund and the Rural Education Achievement Program special revenue fund.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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

Rural Education Achievement Program Fund - The Rural Education Achievement Program Fund is used to account for Federal monies to supplement the various title programs of small rural school districts.

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance and grants.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the fund level. Any budgetary modifications at this level may only be

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

made by resolution of the Board of Education. Budgetary allocations at the function and object level within each fund are made by the Treasurer.

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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

The Board of Education has allocated interest earnings according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2003 was \$489, which includes \$260 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

H. 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, laws of other governments, or imposed by enabling legislation. Restricted assets represent amounts required by State statute to be set aside for capital improvements.

I. Capital Assets

All of the School District's capital assets are general capital assets resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 years
Buildings and Building Improvements	75 years
Furniture, Fixtures, and Equipment	5 years

J. Compensated Absences

The School District does not record a liability for accrued vacation benefits. None of the employees accrue vacation time.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after five years of service.

L. Accrued Liabilities and Long-Term Obligations

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

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

M. Net Assets

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes and capital improvements.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Interfund Transactions

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

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

P. 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 management and are either unusual in nature or infrequent in occurrence. The School District did not have these items in fiscal year 2003.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

R. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Fund Balance

For the fiscal year ended June 30, 2003, the North Bass Local School District has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the School District has changed its basis of accounting from the cash basis of accounting to government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds prepared on the modified accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This change required that certain adjustments be recorded to the July 1, 2002, fund balances/net assets as previously reported to reflect the prior fiscal year’s effect of adopting these new accounting principles.

The transition from cash fund balance to governmental fund balance is as follows:

	General	Rural Education Achievement Program	Other Governmental	Total Governmental Funds
Cash Fund Balance at June 30, 2002	\$74,609	\$0	\$11,304	\$85,913
Cash and Cash Equivalents with Educational Service Center	0	0	64	64
Basis of Accounting Adjustments:				
Prepaid Items	2,091	0	0	2,091
Property Taxes Receivable	161	0	0	161
Accounts Payable	(3,228)	0	(90)	(3,318)
Accrued Wages and Benefits Payable	(9,765)	0	0	(9,765)
Intergovernmental Payable	(1,633)	0	0	(1,633)
Fund Balance at June 30, 2002	<u>\$62,235</u>	<u>\$0</u>	<u>\$11,278</u>	<u>\$73,513</u>

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

The transition from governmental fund balance to net assets of governmental activities is as follows:

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance at June 30, 2002	\$62,235	\$11,278	\$73,513
GASB Statement No. 34 Adjustments:			
Capital Assets			20,964
Intergovernmental Payable			<u>(870)</u>
Governmental Activities Net Assets at June 30, 2002			<u><u>\$93,607</u></u>

Note 4 - Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2003.

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$198,117	\$213,758	\$15,641
Capital Projects Fund			
SchoolNet Plus	200	2,000	1,800

For the fiscal year ended June 30, 2003, the Rural Education Achievement Program special revenue fund had expenditures in excess of appropriations, in the amount of \$485. The School District will make sure all appropriations are reviewed prior to making expenditures.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	(\$800)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	161
Accrued FY 2003, Not Yet Received in Cash	(714)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(14,626)
Accrued FY 2003, Not Yet Paid in Cash	14,843
Prepaid Items	832
Budget Basis	<u><u>(\$304)</u></u>

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current 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.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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

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

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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

At fiscal year end, the carrying amount of the School District's deposits was \$89,538 and the bank balance was \$92,448. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the fair value of funds on deposit with STAR Ohio was \$1,625.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$91,163	\$0
Investments:		
STAR Ohio	(1,625)	1,625
GASB Statement No. 3	\$89,538	\$1,625

Note 7 - Receivables

Receivables at June 30, 2003, consisted of intergovernmental and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. At June 30, 2003, the Rural Education Achievement Program special revenue fund had an intergovernmental receivable, in the amount of \$15,776.

Note 8 - Property Taxes

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

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 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 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Ottawa County. The County Auditor periodically advances to the School 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 represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was 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 reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$714 in the General Fund. The amount available as an advance at June 30, 2002, was \$161 in the General Fund.

On a full accrual basis, collectible delinquent property taxes are recorded as a receivable and revenue. On a modified accrual basis, the revenue is deferred. As of June 30, 2003, the School District had no delinquent property taxes receivable.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$794,310	90.46%	\$810,330	90.78%
Industrial/Commercial	43,970	5.01	43,970	4.93
Public Utility	38,120	4.34	37,190	4.17
Tangible Personal	1,650	0.19	1,180	0.12
Total Assessed Value	<u>\$878,050</u>	<u>100.00%</u>	<u>\$892,670</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$28.60		\$28.60	

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$6,514	\$0	\$0	\$6,514
Depreciable Capital Assets				
Land Improvements	5,510	0	0	5,510
Buildings and Building Improvements	16,855	0	0	16,855
Furniture, Fixtures, and Equipment	12,952	0	0	12,952
Total Depreciable Capital Assets	<u>35,317</u>	<u>0</u>	<u>0</u>	<u>35,317</u>
Less Accumulated Depreciation				
Land Improvements	(551)	(275)	0	(826)
Buildings and Building Improvements	(11,236)	(225)	0	(11,461)
Furniture, Fixtures, and Equipment	(9,080)	(1,720)	0	(10,800)
Total Accumulated Depreciation	<u>(20,867)</u>	<u>(2,220)</u>	<u>0</u>	<u>(23,087)</u>
Depreciable Capital Assets, Net	<u>14,450</u>	<u>(2,220)</u>	<u>0</u>	<u>12,230</u>
Governmental Activities Capital Assets, Net	<u>\$20,964</u>	<u>(\$2,220)</u>	<u>\$0</u>	<u>\$18,744</u>

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,447
Support Services:	
Fiscal	773
Total Depreciation Expense	<u>\$2,220</u>

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage.

Coverage provided by Cincinnati Insurance is as follows:

Buildings and Contents - replacement cost (\$1,000 deductible)	\$250,000
Business and Personal Property (\$1,000 deductible)	50,000

Coverage provided by United Insurance Service is as follows:

General School District Liability	
Per Occurrence	1,000,000
Total per Year	1,000,000

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

Workers' Compensation coverage is provided by the State of Ohio. The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 11 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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 on 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 of their member contributions and employer contributions equal to 10.5 percent 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 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 balance 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 of 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 salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001, was \$5,457, \$3,291, and \$3,867, respectively; 80 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$999, \$649, and \$469, 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, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$420.

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.

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

For the fiscal year ended June 30, 2003, 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 was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$1,684 for fiscal year 2003.

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

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

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.

Note 13 - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from State laws. No employees of the School District earn vacation time.

The teacher and administrator earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred twenty days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of thirty days.

Note 14 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03	Amounts Due Within One Year
Governmental Activities					
Compensated Absences Payable	\$0	\$909	\$0	\$909	\$0

Compensated absences will be paid from the General Fund and EMIS special revenue fund.

Note 15 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(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.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2002	(\$4,362)	\$0	\$753
Current Year Set Aside Requirement	289	289	0
Qualifying Expenditures	(5,366)	(19)	(753)
Balance June 30, 2003	(\$9,439)	\$270	\$0

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

Note 16 - Interfund Transfers

During fiscal year 2003, the General Fund made transfers to other governmental funds, in the amount of \$2,723 to subsidize various programs in other funds.

Note 17 - Jointly Governed Organizations

A. Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating school districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any

NORTH BASS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)

participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Treasurer, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

Note 18 - State School Funding Decision

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

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

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

Note 19 - Contingencies

A. Grants

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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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



**Auditor of State
Betty Montgomery**

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

North Bass Local School District
Ottawa County
515 Kenny Road, P.O. Box 8
Isle Saint George, Ohio 43436-9999

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 North Bass Local School District (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2005, wherein, we noted the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

One Government Center / Room 1420 / Toledo, OH 43604-2246
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www.auditor.state.oh.us

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 9, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 9, 2005

NORTH BASS LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings
June 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Ohio Administrative Code § 117-2-03 required the District to prepare its financial report in accordance with generally accepted accounting principles. The District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to follow generally accepted accounting principles.	Yes	
2002-002	Ohio Revised Code § 5705.39 states that total appropriations from each fund should not exceed the total estimated revenue. In 2001, appropriations of the School Net Fund exceeded estimated resources by \$2,451.	No	Not corrected. Reported in the the management letter.



**Auditor of State
Betty Montgomery**

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800-282-0370

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NORTH BASS LOCAL SCHOOL DISTRICT

OTTAWA 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
JULY 12, 2005**