



**Auditor of State
Betty Montgomery**

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Bellaire Local School District
Belmont County
340 34th Street
Bellaire, Ohio 43906

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 Bellaire Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Bellaire Local School District, Belmont County, Ohio, as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof 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 School 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*.

As describe in Note 3, the School District has changed its capitalization criteria for capital assets from \$500 to \$5,000.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is 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 basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

Betty Montgomery
Auditor of State

March 31, 2004

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Bellaire 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 notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$1,370,786. Revenue flow into the Ohio School Facilities Commission Building Program decreased by \$2,126,729 from fiscal year 2002.
- General revenues accounted for \$10,406,516 in revenue or 70 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$4,564,474 or 30 percent of total revenues of \$14,970,990.
- Total assets of governmental activities decreased \$1,763,683 primarily due to a decrease in current assets in addition to annual depreciation expense. The decrease in current assets can be mostly attributed to the reduced revenue received for the Facilities Program.
- The School District had \$16,341,776 in expenses related to governmental activities; only \$4,564,474 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$10,406,516 were not adequate to provide for these programs.
- The general fund, one of the major funds had, \$10,719,045 in revenues and \$10,828,765 in expenditures. The general fund's balance decreased \$109,720. General fund revenue decreased due to cuts in unrestricted state aid, and decreases in interest earned and other local revenue.

Using this Annual Financial Report

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

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

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the classroom facility capital projects fund.

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

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$6,556,256	\$7,264,543
Capital Assets	27,245,734	28,301,130
Total Assets	33,801,990	35,565,673
Liabilities		
Long-Term Liabilities	5,417,537	5,508,952
Other Liabilities	4,176,439	4,477,921
Total Liabilities	9,593,976	9,986,873
Net Assets		
Invested in Capital Assets		
Net of Debt	23,414,644	24,353,434
Restricted	2,202,790	2,390,197
Unrestricted (Deficit)	(1,409,420)	(1,164,831)
Total Net Assets	\$24,208,014	\$25,578,800

Total assets decreased \$1,763,683. Current assets decreased by \$708,287 primarily due to a decrease in equity in pooled cash and cash equivalents. The decrease in equity in pooled cash and cash equivalents was due to the School District spending cash carryover balances for basic operations and completion of facilities contracts. The decrease in capital assets was due to depreciation expense.

Total liabilities decreased \$392,897. Contracts payable decreased \$708,783 due to the fact that the construction was completed on the Bellaire Elementary, Bellaire Middle and the Bellaire High Schools during fiscal year 2003. This liability decrease was offset by increases in other liability accounts. Long term liabilities decreased due to the payment of principal on outstanding debt.

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Bellaire Local has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
	2003
Revenues	
Program Revenues:	
Charges for Services	\$708,373
Operating Grants	3,738,430
Capital Grants	117,671
General Revenues:	
Property Taxes	2,296,057
Grants and Entitlements	8,023,167
Investments	53,896
Others	33,396
Total Revenues	14,970,990
Program Expenses:	
Instruction:	
Regular	7,144,426
Special	1,787,486
Vocational	222,136
Support Services:	
Pupil	1,547,604
Instructional Staff	177,546
Board of Education, Administration, Fiscal and Business	1,486,370
Operation and Maintenance of Plant	1,331,984
Pupil Transportation	868,740
Central	128,021
Operation of Non-Instructional Services	967,793
Extracurricular Activities	452,589
Interest and Fiscal Charges	227,081
Total Expenses	16,341,776
Decrease in Net Assets	(\$1,370,786)

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

In 2003, 15 percent of the School District's revenues were from property taxes and 54 percent were from unrestricted grants and entitlements.

Program revenues accounted for 31 percent of the School District's revenues in fiscal year 2003. These revenues consist of tuition and fees, charges for providing lunches to students, transportation and vocational services provided to other school districts, grants for specified purposes, and contributions and donations.

Instructional programs comprise approximately 56 percent of total governmental program expenses. Of the instructional expenses, approximately 78 percent is for regular instruction, 20 percent for special instruction, and 2 percent for vocational instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:		
Regular	\$7,144,426	\$5,762,783
Special	1,787,486	1,043,296
Vocational	222,136	162,309
Support Services:		
Pupil	1,547,604	549,298
Instructional Staff	177,546	142,051
Board of Education, Administration, Fiscal and Business	1,486,370	1,282,718
Operation and Maintenance of Plant	1,331,984	1,320,652
Pupil Transportation	868,740	758,688
Central	128,021	126,127
Operation of Non-Instructional Services	967,793	96,328
Extracurricular Activities	452,589	305,971
Interest and Fiscal Charges	227,081	227,081
Total Expenses	\$16,341,776	\$11,777,302

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 76 percent of instruction costs, 75 percent of support services costs, and 67 percent of extracurricular activities costs are supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,883,635 and expenditures of \$15,375,607. As apparent, the School District's spending exceeded revenues during the 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 course of fiscal 2003, the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$27,245,734 invested in land, buildings, furniture, equipment, textbooks and library books and vehicles. The capitalization threshold changed from \$500 to \$5,000 for fiscal year 2003. Table 4 shows fiscal year 2003 balances compared to 2002.

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$732,299	\$732,299
Land Improvements	1,110,731	1,176,169
Buildings and Improvements	24,042,500	24,869,645
Furniture and Equipment	619,420	689,412
Vehicles	295,457	261,041
Textbooks and Library Books	445,327	572,564
Totals	<u>\$27,245,734</u>	<u>\$28,301,130</u>

See note 9 for more detailed information of the School District's capital assets.

Debt

At June 30, 2003, the School District had \$3,831,090 in bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2003	2002
2000 School Facilities Bond	\$3,725,000	\$3,835,000
Capital Leases	106,090	112,696
Totals	<u>\$3,831,090</u>	<u>\$3,947,696</u>

See Note 15 for more information regarding debt.

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Economic Factors

Bellaire Local School District is currently experiencing financial difficulty as reflected by the decline in net assets. As the preceding information shows, the School District relies heavily on state funding as well as its property taxpayers. Based on the current financial situation, the District is currently looking at an operating deficit in 2005. The deficit is due to cuts in unrestricted aid for the 2004-2005 state biennium budget. The District relies heavily on state funding and these cuts have negatively impacted the District. The District is planning on making reductions in spending to avoid the deficit.

The District currently has a \$999,500 balance in the Classroom Facility Fund. The balance remains due to the fact the Ohio School Facilities Commission has not completed project close out. When the close out has been completed, remaining funds will be moved to the Classroom Maintenance Fund for maintaining the new buildings. The District earned \$666,468 in interest on local monies and \$343,974 on investment of the state monies. These earnings are what remain in the account.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Tara Boyer, Treasurer/CFO at Bellaire Local School District, 340 34th Street, Bellaire, Ohio 43906.

Bellaire Local School District
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,228,463
Investments	3,000
Investments in Segregated Accounts	9,140
Accounts Receivable	8,088
Intergovernmental Receivable	330,835
Prepaid Items	61,743
Inventory Held for Resale	14,245
Materials and Supplies Inventory	64,325
Property Taxes Receivable	2,836,417
Non-Depreciating Capital Assets	732,299
Depreciating Capital Assets, Net	26,513,435
<i>Total Assets</i>	33,801,990
Liabilities	
Accounts Payable	41,905
Accrued Wages and Benefits Payable	1,220,467
Matured Severances Payable	64,039
Vacation Benefits Payable	56,738
Intergovernmental Payable	449,588
Accrued Interest Payable	18,032
Claims Payable	10,030
Deferred Revenue	2,315,640
Long-Term Liabilities:	
Due Within One Year	248,364
Due In More Than One Year	5,169,173
<i>Total Liabilities</i>	9,593,976
Net Assets	
Invested in Capital Assets, Net of Related Debt	23,414,644
Restricted for:	
Capital Projects	1,242,820
Debt Service	326,499
Other Purposes	633,471
Unrestricted (Deficit)	(1,409,420)
<i>Total Net Assets</i>	\$24,208,014

See accompanying notes to the basic financial statements

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Bellaire Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
<i>Instruction:</i>					
Regular	\$7,144,426	\$314,882	\$1,064,131	\$2,630	(\$5,762,783)
Special	1,787,486	0	744,190	0	(1,043,296)
Vocational	222,136	0	59,827	0	(162,309)
<i>Support Services:</i>					
Pupil	1,547,604	11,270	954,116	32,920	(549,298)
Instructional Staff	177,546	0	35,495	0	(142,051)
Board of Education	14,645	0	0	0	(14,645)
Administration	1,103,218	36,748	34,218	0	(1,032,252)
Fiscal	368,507	0	112,655	20,031	(235,821)
Operation and Maintenance of Plant	1,331,984	1,000	2,431	7,901	(1,320,652)
Pupil Transportation	868,740	0	55,863	54,189	(758,688)
Central	128,021	0	1,894	0	(126,127)
Operation of Non-Instructional Services	967,793	228,705	642,760	0	(96,328)
Extracurricular Activities	452,589	115,768	30,850	0	(305,971)
Interest and Fiscal Charges	227,081	0	0	0	(227,081)
<i>Total Governmental Activities</i>	<u>\$16,341,776</u>	<u>\$708,373</u>	<u>\$3,738,430</u>	<u>\$117,671</u>	<u>(11,777,302)</u>
General Revenues					
Property Taxes Levied for General Purposes					1,748,181
Property Taxes Levied for Capital Outlay					234,859
Property Taxes Levied for Debt Service					313,017
Grants and Entitlements not Restricted to Specific Programs					8,023,167
Investment Earnings					53,896
Miscellaneous					33,396
<i>Total General Revenues</i>					<u>10,406,516</u>
Change in Net Assets					(1,370,786)
<i>Net Assets Beginning of Year (Note 3)</i>					<u>25,578,800</u>
<i>Net Assets End of Year</i>					<u><u>\$24,208,014</u></u>

See accompanying notes to the basic financial statements

Bellaire Local School District
Balance Sheet
Governmental Funds
June 30, 2003

	<u>General</u>	<u>Classroom Facility Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$570,187	\$999,500	\$1,468,740	\$3,038,427
Investments	0	0	3,000	3,000
Investments in Segregated Accounts	0	0	9,140	9,140
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	190,036	0	0	190,036
Receivables:				
Property Taxes	2,158,740	0	677,677	2,836,417
Accounts	3,628	0	4,460	8,088
Intergovernmental	213,689	0	117,146	330,835
Interfund	205,131	0	0	205,131
Prepaid Items	53,714	0	8,029	61,743
Inventory Held for Resale	0	0	14,245	14,245
Materials and Supplies Inventory	61,230	0	3,095	64,325
<i>Total Assets</i>	<u>\$3,456,355</u>	<u>\$999,500</u>	<u>\$2,305,532</u>	<u>\$6,761,387</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$25,359	\$0	\$16,546	\$41,905
Accrued Wages and Benefits Payable	981,047	0	239,420	1,220,467
Matured Severances Payable	41,401	0	22,638	64,039
Interfund Payable	0	0	205,131	205,131
Intergovernmental Payable	291,206	0	41,724	332,930
Claims Payable	10,030	0	0	10,030
Deferred Revenue	2,245,042	0	736,837	2,981,879
<i>Total Liabilities</i>	<u>3,594,085</u>	<u>0</u>	<u>1,262,296</u>	<u>4,856,381</u>
Fund Balances				
Reserved for Encumbrances	255,225	20,200	188,130	463,555
Reserved for Property Taxes	85,341	0	27,876	113,217
Reserved for Budget Stabilization	60,163	0	0	60,163
Reserved for Textbooks and Instructional Material	25,862	0	0	25,862
Reserved for Bus Purchases	104,011	0	0	104,011
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	(668,332)	0	0	(668,332)
Special Revenue Funds	0	0	415,350	415,350
Debt Service Funds	0	0	270,010	270,010
Capital Projects Funds	0	979,300	141,870	1,121,170
<i>Total Fund Balances</i>	<u>(137,730)</u>	<u>999,500</u>	<u>1,043,236</u>	<u>1,905,006</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,456,355</u>	<u>\$999,500</u>	<u>\$2,305,532</u>	<u>\$6,761,387</u>

See accompanying notes to the basic financial statements

Bellaire Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003*

Total Governmental Fund Balances	\$1,905,006
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*Amounts reported for governmental activities in the
statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are deferred in the funds.	27,245,734
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Grants	258,679	
Property Taxes	407,560	
Total		666,239

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available resources, and therefore, are not reported in the funds.	(116,658)
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Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(3,725,000)	
Compensated Absences	(1,586,447)	
Vacation Benefits Payable	(56,738)	
Accrued Interest Payable	(18,032)	
Capital Leases	(106,090)	
Total		(5,492,307)

<i>Net Assets of Governmental Activities</i>	<u><u>\$24,208,014</u></u>
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See accompanying notes to the basic financial statements

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

	<u>General</u>	<u>Classroom Facility</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property Taxes	\$1,705,860	\$0	\$529,347	\$2,235,207
Intergovernmental	8,713,897	5,856	3,103,444	11,823,197
Interest	20,312	28,568	6,444	55,324
Decrease in Fair Value of Investments	0	0	(1,428)	(1,428)
Tuition and Fees	245,493	0	66,091	311,584
Extracurricular Activities	0	0	167,084	167,084
Rentals	1,000	0	0	1,000
Contributions and Donations	0	0	29,566	29,566
Charges for Services	0	0	228,705	228,705
Miscellaneous	32,483	0	913	33,396
<i>Total Revenues</i>	<u>10,719,045</u>	<u>34,424</u>	<u>4,130,166</u>	<u>14,883,635</u>
Expenditures				
Current:				
Instruction:				
Regular	5,443,222	0	789,650	6,232,872
Special	1,114,734	0	594,885	1,709,619
Vocational	219,720	0	0	219,720
Support Services:				
Pupil	392,859	0	1,136,255	1,529,114
Instructional Staff	58,845	0	38,966	97,811
Board of Education	14,336	0	0	14,336
Administration	1,020,643	0	47,910	1,068,553
Fiscal	224,061	0	150,710	374,771
Operation and Maintenance of Plant	1,335,893	0	8,194	1,344,087
Pupil Transportation	715,507	0	63,106	778,613
Central	116,541	0	1,957	118,498
Operation of Non-Instructional Services	369	0	943,047	943,416
Extracurricular Activities	172,035	0	152,518	324,553
Capital Outlay	0	7,395	248,145	255,540
Debt Service:				
Principal Retirement	0	0	136,606	136,606
Interest and Fiscal Charges	0	0	227,498	227,498
<i>Total Expenditures</i>	<u>10,828,765</u>	<u>7,395</u>	<u>4,539,447</u>	<u>15,375,607</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(109,720)	27,029	(409,281)	(491,972)
Other Financing Sources (Uses)				
Inception of Capital Lease	0	0	20,000	20,000
<i>Net Change in Fund Balance</i>	(109,720)	27,029	(389,281)	(471,972)
<i>Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)</i>	<u>(28,010)</u>	<u>972,471</u>	<u>1,432,517</u>	<u>2,376,978</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$137,730)</u>	<u>\$999,500</u>	<u>\$1,043,236</u>	<u>\$1,905,006</u>

See accompanying notes to the basic financial statements

Bellaire Local School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$471,972)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	142,990	
Depreciation	(1,198,386)	
Total	(1,055,396)	(1,055,396)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:

Grants	26,505	
Property Taxes	60,850	
Total	87,355	87,355

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

General Obligation Bonds	110,000	
Capital Leases	26,606	
Total	136,606	136,606

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.

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Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities.

(20,000)

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Intergovernmental Payable	(9,915)	
Vacation Benefits Payable	(12,690)	
Compensated Absences	(25,191)	
Total	(47,796)	(47,796)

Changes in Net Assets of Governmental Activities (\$1,370,786)

See accompanying notes to the basic financial statements

Bellaire Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,639,157	\$1,739,949	\$1,739,949	\$0
Intergovernmental	8,219,253	8,724,623	8,724,655	32
Interest	19,135	18,980	20,312	1,332
Tuition and Fees	231,164	243,796	245,379	1,583
Rent	942	1,000	1,000	0
Contributions and Donations	134,244	134,244	0	(134,244)
Miscellaneous	40,467	42,495	42,955	460
<i>Total Revenues</i>	<u>10,284,362</u>	<u>10,905,087</u>	<u>10,774,250</u>	<u>(130,837)</u>
Expenditures				
Current:				
Instruction:				
Regular	4,964,335	5,405,989	5,348,407	57,582
Special	1,018,674	1,120,645	1,106,146	14,499
Vocational	201,873	226,824	224,353	2,471
Support Services:				
Pupils	363,329	394,946	391,861	3,085
Instructional Staff	62,158	67,117	67,059	58
Board of Education	13,386	14,455	14,442	13
Administration	942,417	1,023,466	1,011,947	11,519
Fiscal	208,001	229,473	227,775	1,698
Operation and Maintenance of Plant	1,242,803	1,464,314	1,451,260	13,054
Pupil Transportation	670,074	851,828	836,322	15,506
Central	104,249	112,535	112,469	66
Extracurricular Activities	157,052	169,485	169,436	49
<i>Total Expenditures</i>	<u>9,948,351</u>	<u>11,081,077</u>	<u>10,961,477</u>	<u>119,600</u>
Excess of Revenues Over (Under) Expenditures	<u>336,011</u>	<u>(175,990)</u>	<u>(187,227)</u>	<u>(11,237)</u>
Other Financing Sources (Uses)				
Advances In	356,650	175,000	175,000	0
Transfers Out	(181,650)	(13)	0	13
Total Other Financing Sources (Uses)	<u>175,000</u>	<u>174,987</u>	<u>175,000</u>	<u>13</u>
<i>Net Change in Fund Balance</i>	511,011	(1,003)	(12,227)	(11,224)
<i>Fund Balance at Beginning of Year</i>	499,079	499,079	499,079	0
Prior Year Encumbrances Appropriated	<u>142,875</u>	<u>142,875</u>	<u>142,875</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1,152,965</u>	<u>\$640,951</u>	<u>\$629,727</u>	<u>(\$11,224)</u>

See accompanying notes to the basic financial statement:

Bellaire Local School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2003

	Private Purpose Trust - Vannelle Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$269	\$66,564
Investments	5,000	0
<i>Total Assets</i>	<u>5,269</u>	<u>\$66,564</u>
Liabilities		
Due to Students	0	\$66,564
<i>Total Liabilities</i>	<u>0</u>	<u>\$66,564</u>
Net Assets		
Held in Trust for Scholarships	<u>5,269</u>	
<i>Total Net Assets</i>	<u>\$5,269</u>	

See accompanying notes to the basic financial statements

Bellaire Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	Private Purpose Trust - Vannelle Scholarship
Additions	
Interest	\$100
Deletions	
Scholarships Awarded	250
<i>Net Change in Fund Balance</i>	(150)
<i>Net Assets Beginning of Year</i>	5,419
<i>Net Assets End of Year</i>	\$5,269

See accompanying notes to the basic financial statements

Bellaire 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

The Bellaire 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 statute and federal guidelines.

The School District was established in 1839 when Jacob Davis Jr. became the first school teacher in Bellaire. The first schoolhouse was also erected in 1839. The current district was originally made up of schools in Bellaire, Key, Pultney and other outlying areas and one-room schools. The final consolidation of these districts was in January 1960 when the Key-Pultney District joined the Bellaire District. The Bellaire School District consolidated again in 2001 when seven elementary and middle school buildings were closed and the district moved to two new facilities. Bellaire Elementary School consists of grades kindergarten through fourth, Bellaire Middle School encompasses grades five through eight and Bellaire High School houses grades nine through twelve. The School District encompasses 48 square miles of rolling hills and small communities in Belmont County. The District's eastern border is the Ohio River. The District is staffed by 75 non-certificated employees, 125 full-time teaching personnel and 18 administrative employees who provide services to 1,550 students and other community members. The School District currently operates 3 instructional buildings, 1 administrative building, 2 maintenance buildings and 1 bus garage.

Reporting Entity:

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

No separate governmental units meet the criteria for inclusion as a component unit.

The following activities are included within the reporting entity:

Parochial Schools - Within the School District boundaries, St. John Central High School and St. John Grade School are operated through the Diocese of Steubenville. Current State legislation provides funding to these parochial schools. These moneys are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District is involved with six organizations, three jointly governed organizations, two insurance purchasing pools and one related organization. These organizations include the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO SERRC), the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan and the Bellaire Public Library. These organizations are presented in Notes 17, 18, and 19.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bellaire 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. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. 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 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. Fiduciary funds are reported by type.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Fund Accounting

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

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

General Fund - The General Fund is the operating fund of the School District and 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.

Classroom Facility Capital Projects Fund The facilities construction fund is used to account for the state and federal grants to be used for facilities upgrades.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The School District has no proprietary funds.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the 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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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 Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 7). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been 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 have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, except cash held in segregated accounts and for certificates of deposit 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" on the balance sheet. During fiscal year 2003, investments were limited to common stock and certificates of deposit. Investments are reported at fair value, which is based on quoted market prices, except for certificates of deposits which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$20,312, which includes \$14,228 assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets in governmental funds include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set aside to create a reserve for budget stabilization and for the purchase of textbooks and instructional materials.

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 the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption, purchased food, donated food and school supplies.

I. Capital Assets

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

All reported capital assets are depreciated except for land. 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>Estimated Lives</u>
Land Improvements	20 Years
Buildings and Improvements	25-50 Years
Furniture and Equipment	5-20 Years
Vehicles	8 Years
Textbooks	6 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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 that the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the School District's termination policy.

Matured severances payable are accrued as a liability for the portion of compensated absences that has come due for payment

L. Accrued Liabilities and Long-Term Obligations

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

In general, 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and loans are recognized as a liability on the governmental fund financial statements when due or when resources are available.

M. Interfund Activity

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Fund Balance Reserves/Designations

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents unspent workers compensation money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for bus purchases is for State funds required to be utilized for the purchase of school buses.

O. Net Assets

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

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

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 the Board of Education and that are either unusual in nature or infrequent in occurrence.

Q. 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.

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the function level for the General Fund and at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate appropriations among objects in the General Fund and among functions and objects in all other funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

Changes in Accounting Principles For the year ended June 30, 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the School District for fiscal year 2003.

Restatement of Fund Balances The fund classification was updated during fiscal year 2003 to reclassify the food service fund, previously reported as an enterprise fund, as a special revenue fund, and the self insurance fund, previously reported as enterprise fund, as a part of the general fund. The E-Rate fund, previously reported as a special revenue fund, was also reclassified as a part of the general fund. In addition contracts payable were restated due to changes in costs of the project. These reclassifications and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Classroom Facility	Nonmajor Funds	Total
Fund Balances,				
June 30, 2002	(\$219,658)	\$818,740	\$1,661,789	\$2,260,871
Fund Reclassifications:				
Food Service	0	0	(177,675)	(177,675)
Self Insurance	113,069	0	0	113,069
E-Rate	54,253	0	(54,253)	0
Restated Contracts Payable:	0	153,731	0	153,731
Interpretation 6:				
Compensated Absences	24,326	0	2,656	26,982
Restated Fund Balances,				
June 30, 2002	(\$28,010)	\$972,471	\$1,432,517	\$2,376,978
GASB 34 Adjustments:				
Capital Assets				28,301,130
Vacation Benefits Payable				(44,048)
Compensated Absences				(1,561,256)
General Obligation Bonds Payable				(3,835,000)
Capital Leases				(112,696)
Accrued Interest Payable				(18,449)
Intergovernmental Payable				(106,743)
Deferred Revenue				578,884
Governmental Activities Net Assets, June 30, 2002				\$25,578,800

The transition from proprietary fund equity to net assets of the business type activities is as follows:

	<u>Food Service</u>	<u>Self Insurance</u>
Fund Equity, June 30, 2002	\$115,061	\$113,069
Fund Reclassification	<u>(115,061)</u>	<u>(113,069)</u>
Business Type Activities, June 30, 2002	<u>\$0</u>	<u>\$0</u>

Bellaire Local School District
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In addition, capital assets were restated due to an increase in the capitalization threshold from \$500 to \$5,000. The restatement resulted in a decrease of \$3,367,695 in governmental activities capital assets from \$36,408,582 to \$33,040,887.

NOTE 4 - ACCOUNTABILITY

At June 30, 2003, the following funds had deficit fund balances:

	<u>Deficit Fund Balance</u>
General Fund	\$137,730
<u>Other Governmental Funds:</u>	
Food Service Fund	\$234,660

The deficit in the General Fund was created by the lack of unrestricted available resources to cover operations of the fund as well as the application of generally accepted accounting principles. The School District is currently monitoring its financial condition and is taking steps to increase revenues and reduce spending.

The Food Service Fund deficit balance is due in part to a deficit cash balance, as well as the application of generally accepted accounting principles. This fund generally receives transfers from the General Fund when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

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Net Change in Fund Balance

GAAP Basis	(\$109,720)
Revenue Accruals	55,205
Expenditure Accruals	202,915
Advances In	175,000
Encumbrances	<u>(335,627)</u>
Budget Basis	<u><u>(\$12,227)</u></u>

NOTE 6 - CASH AND CASH EQUIVALENTS

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

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.

Protection of 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, surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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;

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits were \$3,303,296 and the bank balance was \$3,487,867. Of the bank balance:

\$205,000 was covered by federal depository insurance; and

\$3,282,867 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are categorized below 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 or 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 which are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered

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investments for which the securities are held by the counter party, or by its trust department or agent but not in the School District's name.

	Category 2	Fair Value
Common Stock	\$9,140	\$9,140

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,295,296	\$17,140
Investments:		
Certificates of Deposit	8,000	(8,000)
GASB Statement 3	\$3,303,296	\$9,140

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school 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 school 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 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 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

Bellaire Local School District
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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 School District prior to June 30.

The School District receives property taxes from Belmont 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 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 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 \$85,341 in the general fund, \$16,249 in the debt service fund, \$9,539 in the permanent improvement capital projects fund, and \$2,088 in the classroom facilities special revenue fund. The amount available as an advance at June 30, 2002, was \$119,430 in the general fund, \$22,788 in the debt service fund, \$13,183 in the permanent improvement capital projects fund, and \$2,973 in the classroom facilities maintenance special revenue fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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	\$75,200,720	82.43%	\$75,768,440	82.31%
Public Utility Personal	10,814,380	11.85%	10,951,030	11.90%
Tangible Personal	5,212,520	5.72%	5,328,050	5.79%
	<u>\$91,227,620</u>	<u>100.00%</u>	<u>\$92,047,520</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$34.83		\$34.83

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts, interfund, and intergovernmental grants. 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. A summary of the principal items of intergovernmental receivables follows:

Bellaire Local School District
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	Amounts
Governmental Activities	
Excess Costs	\$183,187
Title XIX CAFS	30,502
Drug Free Grant	29,435
Title I	29,387
Title VI-R	16,694
Ohio Family and Children First	13,687
E-Rate Reimbursement	9,481
Title II-D	7,109
Ohio Appalachian Center for Higher Education	6,958
Title VI	4,395
Total	\$330,835

NOTE 9 - CAPITAL ASSETS

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

	Balance 6/30/02	Additions	Deletions	Balance 6/30/03
Non-Depreciating Capital Assets:				
Land	\$732,299	\$0	\$0	\$732,299
Depreciating Capital Assets:				
Land Improvements	1,314,812	0	0	1,314,812
Buildings and Improvements	28,174,576	5,010	0	28,179,586
Furniture and Equipment	860,785	20,000	0	880,785
Vehicles	1,194,996	117,980	0	1,312,976
Textbooks	763,419	0	0	763,419
Total Depreciable Capital Assets	32,308,588	142,990	0	32,451,578
Accumulated Depreciation:				
Land Improvements	(138,643)	(65,438)	0	(204,081)
Buildings and Improvements	(3,304,931)	(832,155)	0	(4,137,086)
Furniture and Equipment	(171,373)	(89,992)	0	(261,365)
Vehicles	(933,955)	(83,564)	0	(1,017,519)
Textbooks	(190,855)	(127,237)	0	(318,092)
Total Accumulated Depreciation	(4,739,757)	(1,198,386)	0	(5,938,143)
Total Depreciable Capital Assets, Net	27,568,831	(1,055,396)	0	26,513,435
Governmental Capital Assets, Net	\$28,301,130	(\$1,055,396)	\$0	\$27,245,734

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$954,004
Support Services:	
Instructional Staff	79,221
Administration	24,319
Pupil Transportation	87,446
Central	9,523
Extracurricular	26,634
Non-Instructional Services	17,239
Total Depreciation Expense	\$1,198,386

NOTE 10 - RISK MANAGEMENT

A. Property and Liability Insurance

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 with Hartford Insurance Company for property and fleet insurance. Flood insurance was provided by the National Flood Insurance Program. Coverage was provided as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$45,736,000
Flood Insurance (\$1,000 deductible)	\$112,500
Automobile Liability (\$0 deductible)	\$1,000,000
Uninsured Motorists (\$0 deductible)	\$50,000

During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selected. The District pays this annual premium to the OSP. (See Note 18)

Bellaire Local School District
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The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:

Each Occurrence	\$1,000,000
Aggregate Limit	\$3,000,000
Products – Completed Operations Aggregate Limit	\$1,000,000
Personal and Advertising Injury Limit – Each Offense	\$1,000,000
Fire Damage Limit – Any One Event	\$500,000

Employee Benefits Liability:

Each Occurrence	\$1,000,000
Aggregate Limit	\$3,000,000

Employer’s Liability:

Each Occurrence	\$1,000,000
Disease – Each Employee	\$1,000,000

Errors and Omissions Liability:

Each Occurrence	\$1,000,000
Aggregate Limit	\$2,000,000

Employment Practices Liability:

Each Occurrence	\$1,000,000
Aggregate Limit	\$2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers’ Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Other Employee Benefits

Dental insurance is offered to employees through a self-insurance program. The School District contracts with a third party administrator to handle stop-loss coverage. The School District reports the program in the general fund. The claims liability of \$10,030 reported in the General Fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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Changes in claims activity for the past two fiscal years are as follows:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2002	\$12,820	\$82,762	\$90,165	\$5,417
2003	\$5,417	\$117,082	\$112,469	\$10,030

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School 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, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$83,140, \$89,402 and \$64,063 respectively; 54.56 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used

Bellaire Local School District
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to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, 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 School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$864,853, \$830,433, and \$795,246 respectively; 82.81 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$349 made by the School District and \$2,368 made by the plan members.

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 non-certificated 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$66,527 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

Bellaire Local School District
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For SERS, coverage is made available to service retirees with ten or more fiscal 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 the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$130,575.

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 receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 to 265 days for all employees. Upon retirement, payment is made for thirty-five percent of accrued, but unused sick leave credit to a maximum of 84 days for classified employees and 93 days for certified employees.

B. Other Insurance Benefits

The School District contracts with a local health management organization, Health Plan of the Upper Ohio Valley, for hospitalization, prescription and major medical insurance for all employees. The School District pays monthly premiums of up to \$793.52 for family coverage and up to \$317.36 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

The School District provides life insurance to all employees. A \$50,000 life insurance policy is purchased by the School District at a cost of \$12.00 per month. The School District contracts with Kanahwa National Term Life Insurance to provide this benefit. The School District provides vision insurance through Vision Service Plan at a cost of \$13.15 per month. Dental insurance is purchased by the school district at a cost of \$54.00 per month from Medical Mutual of Ohio.

Bellaire Local School District
Notes to the Basic Financial Statements
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NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for equipment and furniture and fixtures.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has initially been capitalized in government wide statements governmental activities in the amount of \$157,864, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities. The equipment is reported at June 30, 2003 in the amount of \$114,470, net of accumulated depreciation. Principal payments in fiscal year 2003 totaled \$26,606 in the governmental funds.

Future minimum lease payments through 2007 are as follows:

Fiscal Year Ending June 30, 2003	Principal	Interest	Total
2004	\$31,101	\$7,364	\$38,465
2005	33,683	4,779	38,462
2006	31,581	2,040	33,621
2007	6,577	474	7,051
2008	3,148	96	3,244
Total	<u>\$106,090</u>	<u>\$14,753</u>	<u>\$120,843</u>

NOTE 15 - LONG - TERM OBLIGATIONS

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

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due In One Year
School Facilities Bond - 2000					
Term Bonds - 6.0 %	\$1,405,000	\$0	\$0	\$1,405,000	\$0
School Facilities Bond - 2000					
Serial Bonds - 4.2% to 5.8 %	2,430,000	\$0	110,000	2,320,000	115,000
Total General Obligation Bonds	<u>3,835,000</u>	<u>0</u>	<u>110,000</u>	<u>3,725,000</u>	<u>115,000</u>
Capital Leases	112,696	20,000	26,606	106,090	31,101
Compensated Absences	1,561,256	104,730	79,539	1,586,447	102,263
Total General Long-Term Obligations	<u>\$5,508,952</u>	<u>\$124,730</u>	<u>\$216,145</u>	<u>\$5,417,537</u>	<u>\$248,364</u>

On February 1, 2000, the School District issued \$4,038,000 in voted general obligation bonds for the purpose of retiring \$4,038,000 in bond anticipation notes that were issued for the purpose of constructing, acquiring, reconstructing, and making additions to classroom facilities under authority of and pursuant to

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

the general laws of the State of Ohio, particularly Chapters 133 and 3318 of the Ohio Revised Code. The bonds were issued for a period of twenty-two years with a final maturity at December 1, 2021. Annual principal and interest requirements are being paid from the debt service fund.

The bond issue consists of serial and term bonds. The term bonds that mature in the year 2021 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2017, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year</u>	<u>Principal Amount</u>
2017	\$250,000
2018	\$265,000
2019	\$280,000
2020	\$295,000

Unless otherwise called for redemption, the remaining \$315,000 principal amount of the Bonds due December 31, 2021 is to be paid at stated maturity.

The bonds maturing on December 1 in each of the years 2010 through 2014 are not subject to optional call for redemption prior to their respective maturity dates.

The bonds maturing on December 1, 2015 and thereafter are subject to optional redemption, in whole or in part on any date and by lot within a maturity, at the option of the School District on or after December 1, 2009 as follows:

<u>Redemption Dates (inclusive)</u>	<u>Redemption Prices</u>
December 1, 2009 through November 30, 2010	101%
December 1, 2010 and thereafter	100%

If fewer than all of the outstanding bonds of single maturity are called for redemption, the selection of the bonds to be redeemed, or portions thereof in amounts of \$5,000 or any integral multiple thereof, shall be made by lot by the Paying Agent and Registrar in any manner which the Paying Agent and Registrar may determine.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30	Term Bonds		Serial Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	
2004	\$0	\$84,300	\$115,000	\$129,349	\$328,649
2005	0	84,300	120,000	123,738	328,038
2006	0	84,300	125,000	117,794	327,094
2007	0	84,300	145,000	111,107	340,407
2008	0	84,300	130,000	104,167	318,467
2009-2013	0	421,500	825,000	393,646	1,640,146
2014-2018	0	414,000	860,000	105,406	1,379,406
2019-2023	1,405,000	134,100	0	0	1,539,100
Total	<u>\$1,405,000</u>	<u>\$1,391,100</u>	<u>\$2,320,000</u>	<u>\$1,085,207</u>	<u>\$6,201,307</u>

Capital leases will be paid from the Permanent Improvement Capital Projects fund. Compensated absences will be paid from the general, miscellaneous federal grant and the food service funds.

The School District's overall legal debt margin was \$3,725,000, with an unvoted debt margin of \$92,048, at June 30, 2003.

NOTE 16 – INTERNAL BALANCES

Interfund balances at June 30, 2003 consist of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	General Fund
Other Governmental Funds	<u>\$205,131</u>

The interfund receivable in the general fund is for the subsidy of the food service program reported in Other Governmental Funds which the District intends to repay.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Belmont-Harrison Vocational School – The Belmont-Harrison Vocational School 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 seven participating school district’s elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2003, the School District made no contributions to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district’s elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2003, the total amount paid to OME-RESA from the School District was \$31,302. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Dick Gummere, who serves as Interim Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

East Central Ohio Special Education Regional Resource Center – The East Central Ohio Special Education Regional Resource Center (ECO 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 ECO SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, who serves as Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

NOTE 18 – INSURANCE PURCHASING POOLS

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

NOTE 19 – RELATED ORGANIZATION

Bellaire Public Library - The Bellaire Public Library is a district political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Bellaire Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purchase are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Bellaire Public Library, Pamela Nyles, Clerk/Treasurer, at 32nd and Guernsey Street, Bellaire, Ohio 43906.

NOTE 20 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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 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.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the Board be returned to the District's general fund or may be left in the account and used by the Board to offset any budget deficit the District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve.

During fiscal year 2002, the Board of Education passed a resolution to maintain the budget reserve pursuant to State Statute.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital improvements, and budget stabilization. Disclosure of this information is required by State statute.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	\$60,667	\$0	\$60,163
Current Year Set-aside Requirement	181,637	181,637	0
Current Year Offsets	0	(237,953)	0
Qualifying Disbursements	<u>(216,442)</u>	<u>(2,600,775)</u>	<u>0</u>
Totals	<u>\$25,862</u>	<u>(\$2,657,091)</u>	<u>\$60,163</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$25,862</u>	<u>\$0</u>	<u>\$60,163</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$25,862</u>	<u>\$0</u>	<u>\$60,163</u>

The School District did not expend the total requirement during fiscal year 2003 for the textbooks set-aside. This amount must be added to the set-aside requirement of future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$86,025.

NOTE 21 – CONTINGENCIES/SUBSEQUENT EVENTS

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

Currently, the School District is not party to any legal proceedings.

NOTE 22 – STATE SCHOOL FUNDING DECISION

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

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

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

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed-Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$0	\$27,512	\$0	\$27,512
School Breakfast Program	10.553	043570-05-PU-00-02/03	90,915		90,914	
National School Lunch Program	10.555	043570-LL-P1/P4-02/03	239,407		239,407	
Total United States Department of Agriculture - Nutrition Cluster			330,322	27,512	330,321	27,512
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed-Through the Ohio Department of Education:</i>						
Title I, Grants to Local Education Agencies	84.010	043570-C1-S1-01/02/03	457,007		544,203	
Special Education - Grants to States	84.027	043570-6B-SF-02/03	217,993		248,333	
Safe and Drug-Free Schools and Communities - State Grants	84.186	043570-DR-S1/S2-02/03	22,477		51,344	
Goals 2000 - State and Local Education Systemic Improvement	84.276	043570-G2-S1/S2-01			11,082	
Eisenhower Professional Development State Grants	84.281	043570-MS-S1/S2-02			3,451	
Innovative Education Program Strategies	84.298	043570-C2-S1-00/02/03	9,670		10,327	
Education Technology State Grants	84.318	043570-TJ-S1-03	2,708		3,095	
School Renovation Grants	84.352	043570-AT-S2-02	10,035		10,035	
Improving Teacher Quality State Grants	84.367	043570-CR-S1-01/02/03	139,073		127,674	
<u>Direct Grant</u>						
Twenty-First Century Community Learning Centers	84.287	N/A	475,000		475,000	
Total United States Department of Education			1,333,963	0	1,484,544	0
UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES						
<i>Passed-Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778	N/A	173,566		173,566	
<i>Passed-Through Ohio Department of Alcohol and Drug Addiction Services:</i>						
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	90,000		89,893	
Total United States Department of Job and Family Services			263,566	0	263,459	0
Total Federal Awards Receipts and Expenditures			\$ 1,927,851	\$ 27,512	\$ 2,078,324	\$ 27,512

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The School District passes-through certain Federal assistance received from the United States Department of Education to a not-for-profit agency (subrecipients). As described in Note A, the School District records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the School District is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Bellaire Local School District
Belmont County
340 34th Street
Bellaire, Ohio 43906

To the Board of Education:

We have audited the financial statements of the Bellaire Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 31, 2004, wherein we noted the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34 and we also noted the School District changed its capitalization criteria for capital assets from \$500 to \$5,000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School District in a separate letter dated March 31, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Bellaire Local School District
Belmont County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 31, 2004.

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

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

Betty Montgomery
Auditor of State

March 31, 2004



Auditor of State Betty Montgomery

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

Bellaire Local School District
Belmont County
340 34th Street
Bellaire, Ohio 43906-1513

To the Board of Education:

Compliance

We have audited the compliance of the Bellaire Local School District, Belmont County, Ohio (the School 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 each of its major federal programs for the year ended June 30, 2003. The School 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 School District's management. Our responsibility is to express an opinion on the School 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 School 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 School District's compliance with those requirements.

In our opinion, the School 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 School 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 School 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.

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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. We noted another matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 31, 2004.

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



Betty Montgomery
Auditor of State

March 31, 2004

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster - Food Donation, CFDA #10.550; School Breakfast Program, CFDA #10.553; and National School Lunch Program, CFDA #10.555 Twenty-First Century Community Learning Centers – CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. As a result, a deficit fund balance indicates that money from one fund was used to cover expenses of another fund.

As of June 30, 2003, the Food Service, Family and Children's First, DD Eisenhower, and Drug Free Schools Funds' had deficit cash fund balances in the amount of \$205,131, \$13,654, \$499, and \$25,136, respectively.

As of March 31, 2003, the Food Service, Drug Free Consortium, Family and Children's First, DD Eisenhower, Title I and HRY Transitions Funds' had deficit cash fund balances in the amount of \$269,131, \$7,817, \$1,153, \$499, \$52,230, and \$19,389, respectively.

As of December 30, 2002, the Food Service, Extended Learning Opportunity Initiative, DD Eisenhower, OWA Student Stipends, Title I and HRY Transitions Funds' had deficit cash fund balances in the amount of \$287,297, \$1,083, \$10,610, \$4,857, \$42,860, and \$26,261, respectively.

As of September 30, 2002, the Food Service, Extended Learning Opportunity Initiative, Safe Schools Helpline/Ohio Partners in Education, DD Eisenhower, OWA Student Stipends, and HRY Transitions Funds' had deficit cash fund balances in the amount of \$236,543, \$1,083, \$1,260, \$6,355, \$4,857, and \$17,783, respectively.

We recommend the School Treasurer monitor fund balances to ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the School District may be able to advance money from other funds. The School District should consult with its legal counsel and review Auditor of State Audit Bulletin 1997-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**BELLAIRE LOCAL CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding <u>Number</u>	Finding <u>Summary</u>	Fully <u>Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2002-11007-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	No	Reissued as Finding Number 2003-001.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The School Treasurer will monitor all fund balances in order to ensure adequate cash balances are on hand to cover expenses.	June 30, 2004	Tara Boyer, School Treasurer



**Auditor of State
Betty Montgomery**

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BELLAIRE LOCAL SCHOOL DISTRICT

BELMONT 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
MAY 11, 2004**