



**Auditor of State
Betty Montgomery**

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities...	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	19
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Receipts and Expenditures.....	47
Notes to the Schedule of Federal Awards Receipts and Expenditures	48
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133	51
Schedule of Findings - <i>OMB Circular A-133 Section .505</i>	53
Schedule of Prior Audit Finding - <i>OMB Circular A-133 Section .315 (b)</i>	56
Corrective Action Plan - <i>OMB Circular A-133 Section .315 (c)</i>	57

This page intentionally left blank.



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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Bellaire Local School District
Belmont County
Independent Accountants' Report
Page 2

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

April 8, 2005

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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, 2004. 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 2004 are as follows:

- Net assets of governmental activities decreased \$1,578,715.
- General revenues accounted for \$10,219,044 in revenue or 66 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,287,133 or 34 percent of total revenues of \$15,506,177.
- Total assets of governmental activities decreased \$1,556,578 primarily due to a decrease in current assets in addition to annual depreciation expense.
- The School District had \$17,084,892 in expenses related to governmental activities; only \$5,287,133 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$10,219,044 were not adequate to provide for these programs.
- The School District had three major funds, the General Fund, the Debt Service Fund and the Classroom Facility Capital Projects Fund. The General Fund had \$11,109,379 in revenues and \$11,600,746 in expenditures. The General Fund's balance decreased \$491,367. The Debt Service Fund had \$358,255 in revenues and \$336,656 in expenditures. The Debt Service Fund's balance increased \$21,599. The Classroom Facility Fund had \$10,116 in revenues and \$39,219 in expenditures. The Classroom Facility Fund's balance decreased \$29,103.

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, 2004

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 2004?" 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, the School District's programs are all reported as 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, debt 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 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple 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, the Debt Service 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, 2004

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 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$5,870,302	\$6,556,256
Capital Assets	26,375,110	27,245,734
Total Assets	32,245,412	33,801,990
Liabilities		
Long-Term Liabilities	5,308,645	5,417,537
Other Liabilities	4,307,468	4,176,439
Total Liabilities	9,616,113	9,593,976
Net Assets		
Invested in Capital Assets, Net of Debt	22,690,121	23,414,644
Restricted	2,032,389	2,202,790
Unrestricted (Deficit)	(2,093,211)	(1,409,420)
Total Net Assets	\$22,629,299	\$24,208,014

Total assets decreased \$1,556,578. Current assets decreased by \$685,954 primarily due to a decrease in equity in pooled cash and cash equivalents due to the drop in state basic aide, lower interest earnings and the bus allocation funding being spent on bus purchases. The decrease in capital assets was due to depreciation expense recorded for fiscal year 2004 which was offset by bus purchases. The decrease in unrestricted net assets resulted from declining cash and depreciation expense on capital assets and increased liabilities for wages and benefits.

Total liabilities increased \$22,137, due primarily to accrued wages and benefits and matured severances payable. Both the certified and classified union contracts were rolled over with no increases in wages or health benefits. However, step increases for the certified union employees remain in place.

Table 2 shows the changes in net assets for the fiscal year 2004 compared to fiscal year 2003.

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2
Changes in Net Assets

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$1,261,232	\$708,373
Operating Grants	3,927,903	3,738,430
Capital Grants	97,998	117,671
General Revenues:		
Property Taxes	2,397,711	2,296,057
Grants and Entitlements	7,761,074	8,023,167
Investments	30,073	53,896
Others	30,186	33,396
Total Revenues	15,506,177	14,970,990
Program Expenses:		
Instruction:		
Regular	7,957,903	7,144,426
Special	1,964,509	1,787,486
Vocational	216,353	222,136
Support Services:		
Pupil	1,048,409	1,547,604
Instructional Staff	155,291	177,546
Board of Education, Administration and Fiscal	1,591,302	1,486,370
Operation and Maintenance of Plant	1,192,120	1,331,984
Pupil Transportation	1,205,011	868,740
Central	135,272	128,021
Operation of Non-Instructional Services	352,983	321,601
Food Service Operations	704,422	646,192
Extracurricular Activities	340,759	452,589
Interest and Fiscal Charges	220,558	227,081
Total Expenses	17,084,892	16,341,776
Decrease in Net Assets	(\$1,578,715)	(\$1,370,786)

In 2004, 15 percent of the School District's revenues were from property taxes and 50 percent were from unrestricted grants and entitlements. Property taxes increased by \$101,654 from the prior year. Unrestricted grants and entitlements decreased from fiscal year 2003 by \$262,093. This decrease resulted

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

from the loss of basic aid due to the loss of student enrollment and a reduction in equity funding, a drop in bus allocation revenue and Community Alternative Funding Source reimbursements.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 78 percent is for regular instruction, 19 percent for special instruction, and 3 percent for vocational instruction. Instructional program expenses increased by \$984,717 from the prior year due to the continuing increases in salaries, benefits, utilities, and other operating costs.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2004 compared to fiscal year 2003. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Instruction:				
Regular	\$7,957,903	\$7,144,426	\$6,539,861	\$5,762,783
Special	1,964,509	1,787,486	359,823	1,043,296
Vocational	216,353	222,136	198,692	162,309
Support Services:				
Pupil	1,048,409	1,547,604	323,755	549,298
Instructional Staff	155,291	177,546	81,425	142,051
Board of Education, Administration and Fiscal	1,591,302	1,486,370	1,394,369	1,282,718
Operation and Maintenance of Plant	1,192,120	1,331,984	1,180,231	1,320,652
Pupil Transportation	1,205,011	868,740	1,141,716	758,688
Central	135,272	128,021	135,272	126,127
Operation of Non-Instructional Services	352,983	321,601	(63,482)	32,375
Food Service Operations	704,422	646,192	86,057	63,953
Extracurricular Activities	340,759	452,589	199,482	305,971
Interest and Fiscal Charges	220,558	227,081	220,558	227,081
<i>Total Expenses</i>	<u>\$17,084,892</u>	<u>\$16,341,776</u>	<u>\$11,797,759</u>	<u>\$11,777,302</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent as 60 percent of expenses 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. The General Fund had total revenues of \$11,109,379 and expenditures of \$11,600,746. The General Fund had

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

a deficit fund balance at June 30, 2004 of \$629,097. The primary cause of the deficit balance is liabilities for accrued wages and benefits. In an attempt to alleviate the deficit, the School District has negotiated rollover agreements with the certified and the classified unions with no increases in wages or health benefits. Step increases for the certified union remain in place. Openings created through attrition have not been filled or filled by lower paid employees.

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 2004, the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$26,375,110 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks and library books. Table 4 shows fiscal year 2004 balances compared to 2003.

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

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

	Governmental Activities	
	2004	2003
Land	\$732,299	\$732,299
Land Improvements	1,045,293	1,110,731
Buildings and Improvements	23,246,037	24,042,500
Furniture and Equipment	540,053	619,420
Vehicles	493,338	295,457
Textbooks and Library Books	318,090	445,327
Totals	\$26,375,110	\$27,245,734

Bellaire Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Debt

At June 30, 2004, the School District had \$3,684,989 in bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
2000 School Facilities Bonds		
Term Bonds	\$1,405,000	\$1,405,000
Serial Bonds	<u>2,205,000</u>	<u>2,320,000</u>
Total School Facilities Bonds	<u>3,610,000</u>	<u>3,725,000</u>
Capital Leases	74,989	106,090
Totals	<u><u>\$3,684,989</u></u>	<u><u>\$3,831,090</u></u>

See note 15 for more detailed information on the School District's debt.

Economic Factors

Bellaire Local School District is currently experiencing financial difficulty. 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 implementing several cost cutting measures; specifically, the rollover of the union contracts (no increases in wages or health benefits) and not filling positions, or filling them with less experienced, lower paid employees. The District continues to evaluate staffing needs and other operating costs of the District.

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.

This page intentionally left blank.

Bellaire Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,146,169
Investments	253,000
Investments in Segregated Accounts	10,158
Accounts Receivable	4,735
Intergovernmental Receivable	437,839
Prepaid Items	45,031
Inventory Held for Resale	10,410
Materials and Supplies Inventory	64,586
Property Taxes Receivable	2,898,374
Non-Depreciable Capital Assets	732,299
Depreciable Capital Assets, Net	25,642,811
<i>Total Assets</i>	32,245,412
Liabilities	
Accounts Payable	52,422
Accrued Wages and Benefits Payable	1,260,893
Matured Severance Payable	96,798
Vacation Benefits Payable	53,358
Intergovernmental Payable	433,106
Accrued Interest Payable	17,577
Claims Payable	7,815
Deferred Revenue	2,385,499
Long-Term Liabilities:	
Due Within One Year	231,884
Due In More Than One Year	5,076,761
<i>Total Liabilities</i>	9,616,113
Net Assets	
Invested in Capital Assets, Net of Related Debt	22,690,121
Restricted for:	
Capital Projects	1,131,508
Debt Service	339,227
Other Purposes	561,654
Unrestricted (Deficit)	(2,093,211)
<i>Total Net Assets</i>	\$22,629,299

See accompanying notes to the basic financial statements.

Bellaire Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	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					
Current:					
Instruction:					
Regular	\$7,957,903	\$554,843	\$859,735	\$3,464	(\$6,539,861)
Special	1,964,509	78,993	1,503,511	22,182	(359,823)
Vocational	216,353	17,661	0	0	(198,692)
Support Services:					
Pupil	1,048,409	87,558	586,281	50,815	(323,755)
Instructional Staff	155,291	1,768	72,098	0	(81,425)
Board of Education	20,355	0	0	0	(20,355)
Administration	1,299,991	96,215	98,645	0	(1,105,131)
Fiscal	270,956	1,398	0	675	(268,883)
Operation and Maintenance of Plant	1,192,120	4,979	0	6,910	(1,180,231)
Pupil Transportation	1,205,011	22,182	27,161	13,952	(1,141,716)
Central	135,272	0	0	0	(135,272)
Operation of Non-Instructional Services	352,983	27,066	389,399	0	63,482
Food Service Operations	704,422	227,292	391,073	0	(86,057)
Extracurricular Activities	340,759	141,277	0	0	(199,482)
Interest and Fiscal Charges	220,558	0	0	0	(220,558)
<i>Total Governmental Activities</i>	<u>\$17,084,892</u>	<u>\$1,261,232</u>	<u>\$3,927,903</u>	<u>\$97,998</u>	<u>(11,797,759)</u>
General Revenues					
Property Taxes Levied for General Purposes					1,851,378
Property Taxes Levied for Debt Service					306,588
Property Taxes Levied for Capital Outlay					239,745
Grants and Entitlements not Restricted to Specific Programs					7,761,074
Investment Earnings					30,073
Miscellaneous					30,186
<i>Total General Revenues</i>					<u>10,219,044</u>
Change in Net Assets					(1,578,715)
<i>Net Assets Beginning of Year</i>					<u>24,208,014</u>
<i>Net Assets End of Year</i>					<u><u>\$22,629,299</u></u>

See accompanying notes to the basic financial statements.

Bellaire Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Classroom Facility	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$81,620	\$288,608	\$720,397	\$974,583	\$2,065,208
Investments	0	0	250,000	3,000	253,000
Investments in Segregated Accounts	0	0	0	10,158	10,158
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	80,961	0	0	0	80,961
Receivables:					
Property Taxes	2,240,030	369,753	0	288,591	2,898,374
Accounts	4,735	0	0	0	4,735
Intergovernmental	270,574	0	0	167,265	437,839
Interfund	302,306	0	0	0	302,306
Prepaid Items	38,746	0	0	6,285	45,031
Inventory Held for Resale	0	0	0	10,410	10,410
Materials and Supplies Inventory	61,230	0	0	3,356	64,586
<i>Total Assets</i>	<u>\$3,080,202</u>	<u>\$658,361</u>	<u>\$970,397</u>	<u>\$1,463,648</u>	<u>\$6,172,608</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$27,810	\$0	\$0	\$24,612	\$52,422
Accrued Wages and Benefits	986,104	0	0	274,789	1,260,893
Matured Severance Payable	96,798	0	0	0	96,798
Interfund Payable	0	0	0	302,306	302,306
Intergovernmental Payable	261,676	0	0	61,152	322,828
Claims Payable	7,815	0	0	0	7,815
Deferred Revenue	2,329,096	350,503	0	400,731	3,080,330
<i>Total Liabilities</i>	<u>3,709,299</u>	<u>350,503</u>	<u>0</u>	<u>1,063,590</u>	<u>5,123,392</u>
Fund Balances (Deficit)					
Reserved for Encumbrances	130,508	0	158,051	141,844	430,403
Reserved for Property Taxes	110,626	19,250	0	14,207	144,083
Reserved for Textbooks and Instructional Materials	20,798	0	0	0	20,798
Reserved for Budget Stabilization	60,163	0	0	0	60,163
Unreserved, Undesignated, Reported in:					
General Fund	(951,192)	0	0	0	(951,192)
Special Revenue Funds	0	0	0	124,591	124,591
Debt Service Fund	0	288,608	0	0	288,608
Capital Projects Funds	0	0	812,346	119,416	931,762
<i>Total Fund Balances</i>	<u>(629,097)</u>	<u>307,858</u>	<u>970,397</u>	<u>400,058</u>	<u>1,049,216</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,080,202</u>	<u>\$658,361</u>	<u>\$970,397</u>	<u>\$1,463,648</u>	<u>\$6,172,608</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, 2004*

Total Governmental Fund Balances \$1,049,216

*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. 26,375,110

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds:

Grants	326,039
Property Taxes	<u>368,792</u>

Total 694,831

Intergovernmental payable includes contractually required pension
contributions not expected to be paid with available resources,
and therefore, are not reported in the funds. (110,278)

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	3,610,000
Compensated Absences	1,623,656
Vacation Benefits Payable	53,358
Accrued Interest Payable	17,577
Capital Leases	<u>74,989</u>

Total (5,379,580)

Net Assets of Governmental Activities \$22,629,299

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, 2004

	General	Debt Service	Classroom Facility	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,875,490	\$315,914	\$0	\$245,075	\$2,436,479
Intergovernmental	8,503,982	42,341	0	3,165,973	11,712,296
Interest	14,094	0	10,116	5,863	30,073
Tuition and Fees	633,103	0	0	66,844	699,947
Extracurricular Activities	0	0	0	197,505	197,505
Rent	400	0	0	0	400
Contributions and Donations	5,663	0	0	1,656	7,319
Charges for Services	60,187	0	0	331,750	391,937
Miscellaneous	16,460	0	0	13,726	30,186
<i>Total Revenues</i>	<u>11,109,379</u>	<u>358,255</u>	<u>10,116</u>	<u>4,028,392</u>	<u>15,506,142</u>
Expenditures					
Current:					
Instruction:					
Regular	5,894,792	0	0	1,103,048	6,997,840
Special	1,165,550	0	0	706,692	1,872,242
Vocational	217,040	0	0	0	217,040
Support Services:					
Pupil	394,799	0	0	771,077	1,165,876
Instructional Staff	342	0	0	73,186	73,528
Board of Education	16,046	0	0	0	16,046
Administration	1,096,427	0	0	197,400	1,293,827
Fiscal	246,429	8,007	0	6,456	260,892
Operation and Maintenance of Plant	1,309,911	0	0	56,218	1,366,129
Pupil Transportation	955,114	0	0	117,551	1,072,665
Central	127,613	0	0	0	127,613
Operation of Non-Instructional Services	625	0	0	353,905	354,530
Food Service Operations	0	0	0	695,356	695,356
Extracurricular Activities	176,058	0	0	142,292	318,350
Capital Outlay	0	0	39,219	123,665	162,884
Debt Service:					
Principal Retirement	0	115,000	0	31,101	146,101
Interest and Fiscal Charges	0	213,649	0	7,364	221,013
<i>Total Expenditures</i>	<u>11,600,746</u>	<u>336,656</u>	<u>39,219</u>	<u>4,385,311</u>	<u>16,361,932</u>
<i>Net Change in Fund Balances</i>	(491,367)	21,599	(29,103)	(356,919)	(855,790)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(137,730)</u>	<u>286,259</u>	<u>999,500</u>	<u>756,977</u>	<u>1,905,006</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$629,097)</u>	<u>\$307,858</u>	<u>\$970,397</u>	<u>\$400,058</u>	<u>\$1,049,216</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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$855,790)

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 capital outlay exceeded depreciation in the current period.

Capital Outlay	340,178	
Depreciation	(1,207,802)	
Total	(867,624)	(867,624)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the net loss on the disposal of fixed assets.

(3,000)

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

Grants	67,360	
Property Taxes	(38,768)	
Total	28,592	28,592

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	115,000	
Capital Leases	31,101	
Total	146,101	146,101

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

455

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	6,380	
Vacation Benefits Payable	3,380	
Compensated Absences	(37,209)	
Total	(27,449)	(27,449)

Changes in Net Assets of Governmental Activities (\$1,578,715)

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,867,629	\$1,850,205	\$1,850,205	\$0
Intergovernmental	8,554,957	8,475,052	8,475,146	94
Interest	14,227	14,000	14,094	94
Tuition and Fees	639,735	632,682	633,767	1,085
Rent	404	400	400	0
Contributions and Donations	5,716	5,663	5,663	0
Charges for Services	33,192	32,882	32,882	0
Miscellaneous	14,827	14,560	14,689	129
<i>Total Revenues</i>	<u>11,130,687</u>	<u>11,025,444</u>	<u>11,026,846</u>	<u>1,402</u>
Expenditures				
Current:				
Instruction:				
Regular	5,615,700	5,712,276	5,932,336	(220,060)
Special	1,108,653	1,163,864	1,163,780	84
Vocational	206,531	216,705	216,496	209
Support Services:				
Pupils	389,809	408,543	408,418	125
Instructional Staff	647	678	678	0
Board of Education	15,508	16,246	16,245	1
Administration	1,029,815	1,081,265	1,081,215	50
Fiscal	233,547	250,636	250,491	145
Operation and Maintenance of Plant	1,238,677	1,415,678	1,411,396	4,282
Pupil Transportation	896,997	952,007	951,541	466
Central	125,362	141,320	141,215	105
Extracurricular Activities	169,174	177,231	177,212	19
<i>Total Expenditures</i>	<u>11,030,420</u>	<u>11,536,449</u>	<u>11,751,023</u>	<u>(214,574)</u>
<i>Net Change in Fund Balance</i>	100,267	(511,005)	(724,177)	(213,172)
<i>Fund Balance Beginning of Year</i>	657,032	657,032	657,032	0
Prior Year Encumbrances Appropriated	335,627	335,627	335,627	0
<i>Fund Balance End of Year</i>	<u>\$1,092,926</u>	<u>\$481,654</u>	<u>\$268,482</u>	<u>(\$213,172)</u>

See accompanying notes to the basic financial statements

Bellaire Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Fund	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$130	\$63,922
Investments	5,000	0
<i>Total Assets</i>	5,130	\$63,922
Liabilities		
Due to Students	0	\$63,922
<i>Total Liabilities</i>	0	\$63,922
Net Assets		
Held in Trust for Scholarships	5,130	
<i>Total Net Assets</i>	\$5,130	

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, 2004

	Private Purpose Trust Fund
Additions	
Interest	\$111
Deductions	
Scholarships Awarded	250
<i>Net Change in Fund Balance</i>	(139)
<i>Net Assets Beginning of Year</i>	5,269
<i>Net Assets End of Year</i>	\$5,130

See accompanying notes to the basic financial statements

This page intentionally left blank.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 School District's eastern border is the Ohio River. The School District is staffed by 80 non-certificated employees, 126 full-time teaching personnel and 15 administrative employees who provide services to 1,500 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, 2004

The School District is involved with five organizations, three jointly governed organizations, one 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 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 unless those pronouncements 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, 2004

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.

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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 fund accounts 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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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. 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. 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, 2004, but which were levied to finance fiscal year 2005 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

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 2004, investments were limited to common stock, federal home loan bank bonds, 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 2004 amounted to \$14,094, which includes \$11,040 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 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, 2004, 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

N. Fund Balance Reserves

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 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 rebates required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for textbooks and instructional materials represents money required to be set-aside by statute for the purchase of textbooks and instructional material.

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 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 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 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 functions and objects in all 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 amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect 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 – CHANGES IN ACCOUNTING PRINCIPLE

Change in Accounting Principle For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are component Units." This Statement further defines the guidelines of GASB Statement No.14, "The Financial Reporting Entity." At June 30, 2004, there was no effect on fund balances as a result of implementing GASB Statement 39.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the following funds had deficit fund balances:

	<u>Deficit Fund Balance</u>
General Fund	\$629,097
<u>Other Governmental Funds:</u>	
Food Service Special Revenue Fund	311,594

The deficit in the General Fund was created by the application of generally accepted accounting principles. The primary cause of the deficit balance is liabilities for accrued wages and benefits. In an attempt to alleviate these deficits, the School District has negotiated rollover agreements with both unions with no increases in wages or health benefits. Step increases for the certified union remain in place. Openings created through attrition are not filled, or filled with lower paid employees.

The deficit in the food service special revenue fund is due to accrued liabilities as well as a failure to adequately fund this program. In order to alleviate this deficit the School District has implemented a closed lunch (not allowing students to leave campus for lunch) for the Freshman Class. The School District intends to alleviate this deficit over the next few years.

B. Compliance

The General Fund had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code in the amount of \$214,574. Management has indicated that expenditures will be closely monitored to ensure no future violation.

The following fund had original appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2004:

	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Math and Science State Grant	(\$499)	\$942	\$1,441
Food Service	\$376,525	\$678,649	\$302,124

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

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:

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

-
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).

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

Net Change in Fund Balance

GAAP Basis	(\$491,367)
Revenue Accruals	(82,533)
Expenditure Accruals	46,128
Encumbrances	<u>(196,405)</u>
Budget Basis	<u><u>(\$724,177)</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;

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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;
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 expectations 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 \$2,218,221 and the bank balance was \$2,547,900. Of the bank balance:

\$304,130 was covered by federal depository insurance; and

\$2,243,770 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 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	\$10,158	\$10,158
Federal Home Loan Bank Bonds	250,000	250,000
Total	\$260,158	\$260,158

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	\$2,210,221	\$268,158
Investments with original maturities of more than 90 days:		
Certificates of Deposit	8,000	(8,000)
GASB Statement 3	\$2,218,221	\$260,158

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the 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, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004 was \$110,626 in the General Fund, \$19,250 in the Debt Service Fund, \$11,607 in the Permanent Improvement Capital Projects Fund, and \$2,600 in the Classroom Facilities Maintenance Special Revenue Fund. 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 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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$75,768,440	82.31%	\$81,593,930	83.95%
Public Utility Personal	10,951,030	11.90%	10,734,240	11.04%
Tangible Personal	5,328,050	5.79%	4,867,410	5.01%
	<u>\$92,047,520</u>	<u>100.00%</u>	<u>\$97,195,580</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$34.83		\$34.50

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, 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. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Excess Costs	\$199,692
Title XIX CAFS	70,882
Title I	58,941
Food Subsidy	40,918
Title VIB	38,344
Title VI-R	15,699
Preschool	7,102
Title II-D	6,261
Total Intergovernmental Receivables	<u>\$437,839</u>

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
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	28,179,586	36,103	0	28,215,689
Furniture and Equipment	880,785	12,589	(16,895)	876,479
Vehicles	1,312,976	291,486	(116,398)	1,488,064
Textbooks	763,419	0	0	763,419
Total Depreciable Capital Assets	32,451,578	340,178	(133,293)	32,658,463
Accumulated Depreciation:				
Land Improvements	(204,081)	(65,438)	0	(269,519)
Buildings and Improvements	(4,137,086)	(832,566)	0	(4,969,652)
Furniture and Equipment	(261,365)	(88,956)	13,895	(336,426)
Vehicles	(1,017,519)	(93,605)	116,398	(994,726)
Textbooks	(318,092)	(127,237)	0	(445,329)
Total Accumulated Depreciation	(5,938,143)	(1,207,802)	130,293	(7,015,652)
Total Depreciable Capital Assets, Net	26,513,435	(867,624)	(3,000)	25,642,811
Governmental Capital Assets, Net	\$27,245,734	(\$867,624)	(\$3,000)	\$26,375,110

*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$956,081
Support Services:	
Instructional Staff	79,221
Board of Education	4,541
Administration	17,673
Operation and Maintenance of Plant	5,663
Pupil Transportation	93,554
Central	7,659
Operation of Non-Instructional Services	17,347
Extracurricular Activities	26,063
Total Depreciation Expense	<u>\$1,207,802</u>

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004 the School District contracted with Ohio School Insurance Program for property and inland marine coverage, and for fleet insurance and liability insurance. Flood insurance was provided by the National Flood Insurance. Ohio School Insurance Program Coverage's provided by Selective Insurance Company of South Carolina are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$37,225,050
Boiler and Machinery (\$500 deductible)	70,882
Automotive Liability (\$500 deductible)	2,000,000
Uninsured Motorist (\$500 deductible)	1,000,000
<i>General Liability:</i>	
Each Occurance	2,000,000
Aggregated Limit	4,000,000
Personal and Advertising Injury Limit - Each Occurance	2,000,000
Fire Damage Limit - Any One Event (\$10,000 deductible)	2,000,000
<i>Employee Benefits Liability:</i>	
Each Occurance	2,000,000
Aggregated Limit	4,000,000
<i>Employer's Liability:</i>	
Each Occurance	1,000,000
Disease - Each Employee	1,000,000

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 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 \$7,815 reported in the General Fund at June 30, 2004 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.

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

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at End</u> <u>of Year</u>
2003	\$5,417	\$117,082	\$112,469	\$10,030
2004	10,030	139,000	141,215	7,815

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 10 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003 and 2002 were \$160,020, \$83,140 and \$89,402 respectively; 51.81 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 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 2003, the portion used to fund pension obligations was also 13 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, 2004, 2003, and 2002 were \$783,659, \$864,853, and \$830,433 respectively; 82.05 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$6,348 made by the School District and \$11,237 made by the plan members.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

STRS retirees from the DB or Combined Plans and their 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. All 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, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$60,281 for fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$117,529.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 270 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 94.5 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 \$742.05 for family coverage and up to \$296.82 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 \$12.76 per month.

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, 2004 in the amount of \$84,072, net of accumulated depreciation. Principal payments in fiscal year 2004 totaled \$31,101 in the governmental funds.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Future minimum lease payments through 2008 are as follows:

Fiscal Year Ending June 30, 2004	Principal	Interest	Total
2005	\$33,683	\$4,779	\$38,462
2006	31,581	2,040	33,621
2007	6,577	477	7,054
2008	3,148	96	3,244
Total	<u>\$74,989</u>	<u>\$7,392</u>	<u>\$82,381</u>

NOTE 15 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	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 %	2,320,000	\$0	115,000	2,205,000	120,000
Total General Obligation Bonds	<u>3,725,000</u>	<u>0</u>	<u>115,000</u>	<u>3,610,000</u>	<u>120,000</u>
Capital Leases	106,090	0	31,101	74,989	33,683
Compensated Absences	1,586,447	90,232	53,023	1,623,656	78,201
Total General Long-Term Obligations	<u>\$5,417,537</u>	<u>\$90,232</u>	<u>\$199,124</u>	<u>\$5,308,645</u>	<u>\$231,884</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 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:

Year	Principal Amount
2017	\$250,000
2018	265,000
2019	280,000
2020	295,000

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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:

Redemption Dates (inclusive)	Redemption Prices
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.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	Term Bonds		Serial Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	
2005	\$0	\$84,300	\$120,000	123,738	\$328,038
2006	0	84,300	125,000	117,795	327,095
2007	0	84,300	145,000	111,108	340,408
2008	0	84,300	130,000	104,168	318,468
2009	0	84,300	145,000	97,118	326,418
2010-2014	0	421,500	875,000	342,329	1,638,829
2015-2019	0	391,050	665,000	59,605	1,115,655
2020-2024	1,405,000	82,200	0	0	1,487,200
Total	<u>\$1,405,000</u>	<u>\$1,316,250</u>	<u>\$2,205,000</u>	<u>\$955,861</u>	<u>\$5,882,111</u>

Capital leases will be paid from the Permanent Improvement Capital Projects Fund. Compensated absences will be paid from the General, Disadvantaged Pupil Impact Aid, Miscellaneous Federal Grants, Title I and the Food Service Funds.

The School District's overall legal debt margin was \$5,445,460, with an unvoted debt margin of \$97,196, at June 30, 2004.

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 – INTERNAL BALANCES

Interfund balances at June 30, 2004 consist of the following individual interfund receivables and payables:

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	General Fund
Other Nonmajor Governmental	\$302,306

The interfund receivable in the General Fund is for the subsidy of the food service program which the School District intends to repay over the next few years. The School District has implemented a closed lunch (not allowing students to leave campus for lunch) for the Freshman Class and has negotiated rollover agreements with both unions with no increases in wages or health benefits. Openings created through attrition are not filled, or filled with lower paid employees.

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 2004, 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 2004, the total amount paid to OME-RESA from the School District was \$25,613. 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, 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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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.

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 only the refunds from the Bureau of Workers Compensation in 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, 2004

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$25,862	\$0	\$60,163
Allowable Carry Forward from Prior Years	0	(3,028,386)	0
Current Year Set-aside Requirement	179,189	179,189	0
Current Year Offsets	0	(39,219)	0
Qualifying Disbursements	(184,253)	(294,877)	0
Totals	<u>\$20,798</u>	<u>(\$3,183,293)</u>	<u>\$60,163</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$20,798</u>	<u>(\$3,183,293)</u>	<u>\$60,163</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$20,798</u>	<u>\$0</u>	<u>\$60,163</u>

The School District did not expend the total requirement during fiscal year 2004 for the textbooks set-aside. This amount must be added to the set-aside requirement of future years. The School District had qualifying disbursements that reduced the capital improvements set-aside amount to below zero and this amount may not be used to reduce the set-aside requirement of future years. In addition, the School District had current year and prior year capital expenditures in connection with a classroom facility building project that may be carried forward to offset the set-aside requirement of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$80,961.

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, 2004.

B. Litigation

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

Bellaire Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 on its future State funding and on its financial operations.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$	\$10,409	\$	\$10,409
School Breakfast Program	043570-05PU-03/04	10.553	96,891		96,891	
National School Lunch Program	043570-LLP4-03/04	10.555	<u>230,714</u>		<u>230,714</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>327,605</u>	<u>10,409</u>	<u>327,605</u>	<u>10,409</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Direct Program:</i>						
Twenty-First Century Community Learning Centers	N/A	84.287	375,000		343,750	
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	043570-C1S1-03/04	84.010	664,609		695,658	
Special Education Grants to States	043570-6BSF-03/04	84.027	218,119		271,138	
Safe and Drug-Free Schools and Communities - State Grants	043570-DRS1/S2-02/03/04	84.186	41,850		13,324	
Eisenhower Professional Development - State Grants	043570-MS-S1/S2-02	84.281	0		1,082	
Innovative Education Program Strategies	043570-C2S1-03/04	84.298	17,552		16,315	
Educational Technology State Grants	043570-TJS1-03/04	84.318	19,937		12,462	
Improving Teacher Quality State Grants	043570-TRS1/SA-03/04	84.367	<u>137,886</u>		<u>190,101</u>	
Total United States Department of Education			<u>1,474,953</u>	<u>0</u>	<u>1,543,830</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>						
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	90,000		90,120	
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	<u>131,800</u>		<u>131,800</u>	
Total United States Department of Health and Human Services			<u>221,800</u>	<u>0</u>	<u>221,920</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$2,024,358</u>	<u>\$10,409</u>	<u>\$2,093,355</u>	<u>\$10,409</u>

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
JUNE 30, 2004**

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 - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. 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 U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – 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 D - TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfer due to ODE administrative action:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers- In</u>	<u>Transfers-Out</u>
84.027	043570-6BSF-2003-P		\$15,779
84.027	043570-6BSF-2004	\$15,779	
84.298	043570-C2S1-2003		466
84.298	043570-C2S1-2004	466	
84.367	043570-TRS1-2003		<u>22,635</u>
84.367	043570-TRS1-2004	<u>22,635</u>	
Total		<u>\$38,880</u>	<u>\$38,880</u>



**Auditor of State
Betty Montgomery**

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

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 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, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated April 8, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002. In a separate letter to the School District's management dated April 8, 2005, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

April 8, 2005



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

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 apply to each of its major federal programs for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the 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, 2004.

Internal Control Over Compliance

The School District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 timely detected by employees when 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 intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for 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

April 8, 2005

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30 2004**

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):	Title I Grants to Local Educational Agencies, C.F.D.A. #84.010; Medical Assistance Program, C.F.D.A #93.778
(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
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 provides that money paid into a fund may only be used for the purpose for which the fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Food Service Fund had negative cash fund balances in the following amounts:

June 30, 2004	\$302,306
May 31, 2004	318,683
March 31, 2004	333,118
December 31, 2003	308,874
September 30, 2003	370,756

Also, during fiscal year 2004, insignificant negative cash fund balances were also noted throughout the year for the following funds: Bond Retirement, Other State Grants, Title VI-B, Title I, Title V and Title II-D Technology.

We recommend the School District Treasurer monitor fund balances to properly 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 can refer to Auditor of State Bulletin 1997-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total estimated revenue available for expenditure therefrom, as certified by the County Budget Commission.

At June 30, 2004, the School District had appropriations in excess of total estimated revenue for the following fund:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Food Service	\$376,525	\$678,649	(\$302,124)

This situation may lead to disbursements within said funds exceeding the actual revenues available.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2004
(Continued)**

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

**FINDING NUMBER 2004-002
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.39 (Continued)

We recommend the School District Board and the School District Treasurer monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. This will help to reduce the risk of disbursements exceeding actual revenues available and will add a measure of control over the School District's budgetary process.

3. FINDINGS FOR FEDERAL AWARDS

None.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315(b)
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2003-001	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	Not corrected; Reissued as Finding No. 2004-001.

**BELLAIRE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 SECTION .315 (c)
JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	The Treasurer will monitor all fund balances to ensure negative fund balances do not occur.	June 30, 2005	Tara Boyer, Treasurer
2004-002	The Treasurer will monitor appropriations to ensure they do not exceed estimated resources.	June 30, 2005	Tara Boyer, Treasurer



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 10, 2005**