

**BLACK RIVER LOCAL
SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

CONNIE HANGE, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Black River Local School District
257 A County Road 40
Sullivan, Ohio 44880

We have reviewed the *Independent Auditor's Report* of the Black River Local School District, Medina County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Black River Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 21, 2006

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BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County (the "District"), Ohio as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Black River Local School District, Medina County, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

Independent Auditor's Report
Black River Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued on our report dated January 25, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Black River Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
January 25, 2006

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's discussion and analysis of the Black River Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$451,070 which represents a 4.22% decrease from 2004.
- General revenues accounted for \$11,981,454 in revenue or 86.06% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$1,940,648 or 13.94% of total revenues of \$13,922,102.
- The District had \$14,373,172 in expenses related to governmental activities; only \$1,940,648 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,981,454 were not adequate to provide for these programs.
- The District's major governmental funds are the general, debt service, and permanent improvement funds. The general fund had \$11,850,044 in revenues and other financing sources and \$13,603,355 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$1,753,311 from a restated balance of \$4,790,024 to \$3,036,713.
- One of the District's other major governmental funds is the debt service fund. The debt service fund had \$742,553 in revenues and other financing sources and \$800,006 in expenditures. During fiscal year 2005, the debt service fund's fund balance decreased \$57,453 from \$1,557,065 to \$1,499,612.
- One of the District's other major governmental funds is the permanent improvement fund. The permanent improvement fund had \$1,604,387 in other financing sources and no expenditures. During fiscal year 2005, the permanent improvement fund's fund balance increased \$1,604,387 to \$1,604,387.

Using the Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. The accrual basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-49 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2004 and 2005.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 11,956,691	\$ 12,552,533
Capital assets	<u>10,039,362</u>	<u>10,296,963</u>
Total assets	<u>21,996,053</u>	<u>22,849,496</u>
<u>Liabilities</u>		
Current liabilities	5,533,755	5,688,523
Long-term liabilities	<u>6,227,036</u>	<u>6,474,641</u>
Total liabilities	<u>11,760,791</u>	<u>12,163,164</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,601,869	4,338,756
Restricted	3,380,704	1,613,210
Unrestricted	<u>1,252,689</u>	<u>4,734,366</u>
Total net assets	<u>\$ 10,235,262</u>	<u>\$ 10,686,332</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$10,235,262.

At year-end, capital assets represented 45.64% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$5,601,869. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

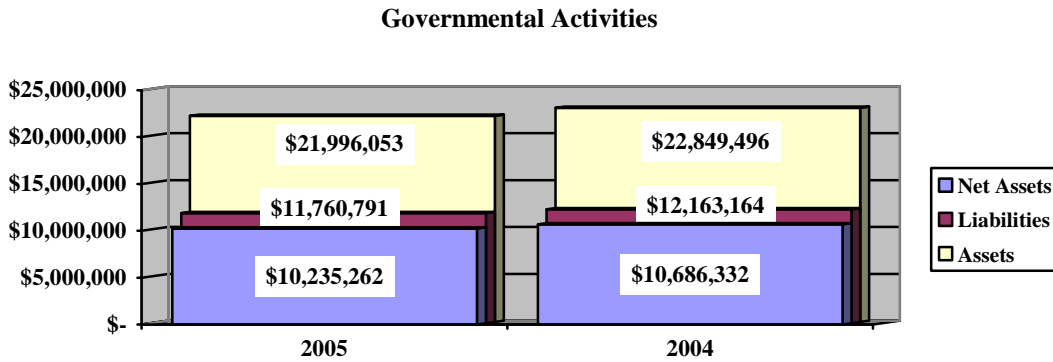
A portion of the District's net assets, \$3,380,704, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,252,689 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental activities net assets of the District decreased \$451,070 between fiscal years 2005 and 2004.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities for fiscal years 2005 and 2004.



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 791,869	\$ 680,538
Operating grants and contributions	1,148,779	1,013,956
Capital grants and contributions	-	41,450
General revenues:		
Property taxes	4,628,945	4,532,212
Grants and entitlements	7,179,545	6,993,137
Investment earnings	151,758	148,931
Miscellaneous	21,206	31,216
Total revenues	<u>\$ 13,922,102</u>	<u>\$ 13,441,440</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,703,155	\$ 5,596,093
Special	2,151,576	1,910,934
Vocational	80,205	63,806
Other	-	10,000
Support services:		
Pupil	573,413	475,962
Instructional staff	945,286	717,470
Board of education	33,537	31,698
Administration	1,043,678	925,303
Fiscal	414,136	396,131
Business	1,255	10,946
Operations and maintenance	1,049,346	945,428
Pupil transportation	966,760	937,041
Central	1,556	38,198
Operations of non-instructional services	13,278	12,302
Extracurricular activities	512,862	540,610
Food service operations	462,532	482,857
Interest and fiscal charges	<u>420,597</u>	<u>409,034</u>
Total expenses	<u>14,373,172</u>	<u>13,503,813</u>
Change in net assets	(451,070)	(62,373)
Net assets at beginning of year	<u>10,686,332</u>	<u>10,748,705</u>
Net assets at end of year	<u>\$ 10,235,262</u>	<u>\$ 10,686,332</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$451,070. Total governmental expenses of \$14,373,172 were offset by program revenues of \$1,940,648 and general revenues of \$11,981,454. Program revenues supported 13.50% of the total governmental expenses.

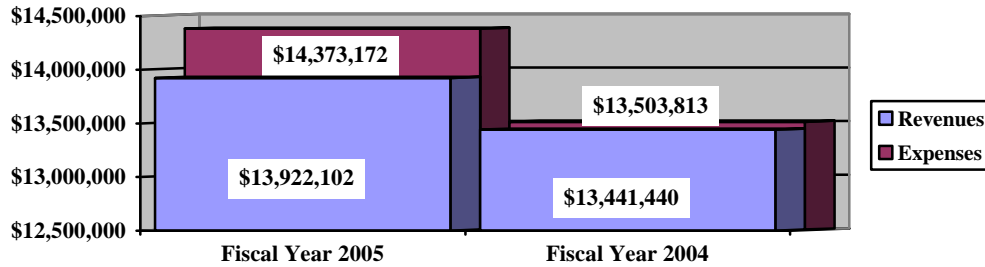
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.82% of total governmental revenue. Real estate property is reappraised every six years.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 5,703,155	\$ 5,211,397	\$ 5,596,093	\$ 5,194,139
Special	2,151,576	1,559,698	1,910,934	1,332,493
Vocational	80,205	80,205	63,806	63,806
Other	-	-	10,000	10,000
Support services:				
Pupil	573,413	451,450	475,962	396,821
Instructional staff	945,286	893,524	717,470	693,988
Board of education	33,537	33,537	31,698	31,698
Administration	1,043,678	994,890	925,303	898,947
Fiscal	414,136	408,806	396,131	396,131
Business	1,255	1,255	10,946	7,365
Operations and maintenance	1,049,346	1,049,346	945,428	945,263
Pupil transportation	966,760	966,760	937,041	936,779
Central	1,556	1,556	38,198	18,709
Operations of non-instructional services	13,278	6,774	12,302	6,216
Extracurricular activities	512,862	243,784	540,610	282,527
Food service operations	462,532	108,945	482,857	143,953
Interest and fiscal charges	420,597	420,597	409,034	409,034
Total expenses	<u>\$ 14,373,172</u>	<u>\$ 12,432,524</u>	<u>\$ 13,503,813</u>	<u>\$ 11,767,869</u>

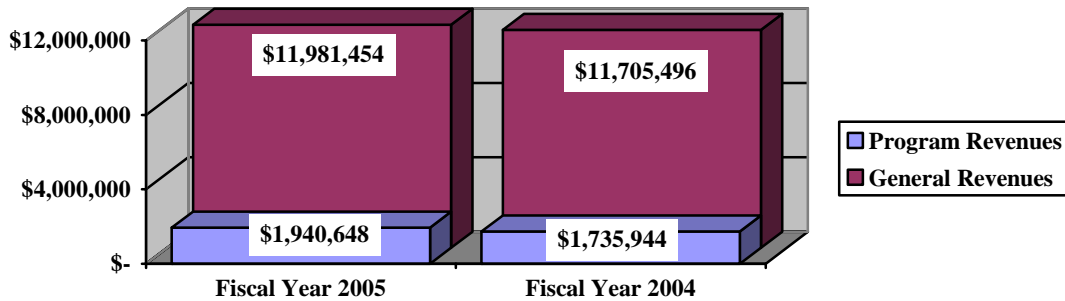
**BLACK RIVER LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 86.34% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.50%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$6,028,921, which is lower than last year's restated balance of \$6,339,276, as discussed in Note 3A. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 3,036,713	\$ 4,790,024	\$(1,753,311)
Debt Service	1,499,612	1,557,065	(57,453)
Permanent Improvement	1,604,387	-	1,604,387
Other Governmental	<u>(111,791)</u>	<u>(7,813)</u>	<u>(103,978)</u>
Total	<u>\$ 6,028,921</u>	<u>\$ 6,339,276</u>	<u>\$ (310,355)</u>

General Fund

The District's general fund's fund balance decreased by \$1,753,311. The decrease in fund balance can be attributed to a transfer from the general fund to the permanent improvement fund. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	2005	Restated 2004	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,085,677	\$ 3,848,376	6.17 %
Tuition	214,837	139,040	54.51 %
Earnings on investments	151,249	148,674	1.73 %
Intergovernmental	7,124,331	6,919,745	2.96 %
Other revenues	<u>144,946</u>	<u>139,313</u>	4.04 %
Total	<u>\$ 11,721,040</u>	<u>\$11,195,148</u>	4.70 %
<u>Expenditures</u>			
Instruction	\$ 6,907,169	\$ 6,659,748	3.72 %
Support services	4,610,140	4,277,862	7.77 %
Operation of non-instructional services	12,578	12,163	3.41 %
Extracurricular activities	183,103	221,181	(17.22) %
Capital outlay	129,004	-	100.00 %
Facilities acquisition and construction	56,705	321,890	(82.38) %
Debt service	<u>46,334</u>	<u>-</u>	100.00 %
Total	<u>\$ 11,945,033</u>	<u>\$11,492,844</u>	3.93 %

Debt Service Fund

The District's debt service fund's fund balance decreased by \$57,453. The debt service fund had \$742,553 in revenues and other financing sources and \$800,006 in expenditures.

Permanent Improvement Fund

The District's permanent improvement fund's fund balance increased by \$1,604,387. The only activity in this fund was a transfer from the general fund in the amount of the ending fund balance, \$1,604,387, which increased the total from a beginning balance \$0. This transfer from the general fund was enough to cause the permanent improvement fund to meet the criteria necessary to be determined as a major governmental fund.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$11,813,025, which was higher than the original budgeted revenues estimate of \$11,464,205. Actual revenues and other financing sources for fiscal year 2005 were \$11,833,143. This represents a \$20,118 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,834,699 were increased to \$14,951,299 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$14,247,681, which was \$703,618 less than the final budget appropriations.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$10,039,362 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 363,000	\$ 363,000
Land improvements	443,973	455,563
Building and improvements	8,296,085	8,541,776
Furniture and equipment	555,408	487,253
Vehicles	<u>380,896</u>	<u>449,371</u>
Total	<u>\$ 10,039,362</u>	<u>\$ 10,296,963</u>

Total additions to capital assets for 2005 were \$167,171. The District recorded \$424,772 in depreciation expense for fiscal year 2005.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$5,588,711 in general obligation bonds outstanding and \$87,498 in capital lease obligations. Of this total, \$721,026 is due within one year and \$5,506,010 is due within greater than one year. The following table summarizes the bonds outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2005</u>	<u>2004</u>
General obligation bonds and capital appreciation bonds		
1994 improvement bonds	\$ 1,416,531	\$ 1,624,363
2001 refunding bonds	4,172,180	4,333,844
Capital lease obligation	<u>87,498</u>	<u>-</u>
Total	<u>\$ 5,676,209</u>	<u>\$ 5,958,207</u>

The improvement bonds were received in 1994. These bonds are scheduled to mature in fiscal year 2020 and bear interest rates ranging from 4.40% to 10.96%. Payment of principal and interest on the 1994 improvement bonds are being made from the debt service fund.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The refunding bonds were received in 2001. These bonds are scheduled to mature in fiscal year 2020 and bear interest rates ranging from 4.67% to 25.815%. Payment of principal and interest on the 2001 refunding bonds are being made from the debt service fund.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Funding

Black River Local School District is a rural school district that encompasses 125 square miles in southwestern Medina, southern Lorain and northern Ashland counties. The State Foundation Formula is the primary funding source of education to the District and represents approximately 60% of revenue. This funding calculation is affected by local property valuation changes and as valuations increase, the state funding is decreased. Since 1997, local property valuations have increased 81% or \$78 million, from \$96 million to \$174 million in 2006. Another significant factor in this calculation is student enrollment, which has increased 73% or 753 students, from 1,033 students in FY 1998 to 1,786 students in FY 2006. The cumulative increase in basic aid for the District from FY 1998 to FY 2006 is 64% or \$2.5 million. Tax collections have increased 33% or approximately \$1 million from \$3.0 million to \$4.0 million. Voters last approved a new operating levy in 1997.

Budget

Approximately 83% of the general fund budget is expended for employee wages and fringe benefits. These costs, including health benefits, have been increasing at a rate almost double to that of recent revenue growth. During 2005, the Black River Local School District transferred \$1.6 million from the general fund into permanent improvement. In the past three years, major renovations made to the high school heating system and the addition of an eight classroom modular complex were paid for from the general fund. Going forward, additional work to the high school heating system, the heating and cooling system in the Black River Education Center, as well as other permanent improvements will be paid for from these monies. As expenditures continue to increase at rates exceeding revenue growth, the District is challenged to monitor its budget so as to continue to strive for academic excellence while remaining financially sound. The State has cut funding to schools as legislators continue to struggle to balance that budget. At the same time, The Governor's Blue Ribbon Task Force on Financing Student Success has yet to provide any solutions. Forecasting beyond one year is uncertain at best.

Facilities

The District had chosen to participate in the Ohio School Facilities Commission Expedited Local Partnership Program. A comprehensive facilities plan is in progress. The first stage of this facilities plan is the construction of a new high school, for which voters rejected a 6.88 mill bond issue in November 2004 and a 6.46 mill bond issue in February 2005. As the District continues to grow and the learning environment continues to change, there is a real need to expand and update our buildings. However, due to voter response, no definitive plan is in place.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Connie I. Hange, Treasurer, Black River Local School District, 257-A County Road 40, Sullivan, Ohio 44880.

**BASIC
FINANCIAL STATEMENTS**

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 6,482,767
Receivables:	
Taxes	5,003,688
Accounts	660
Intergovernmental	413,115
Prepayments	52,754
Materials and supplies inventory	3,707
Capital assets:	
Land	363,000
Depreciable capital assets, net.	9,676,362
Capital assets, net	10,039,362
 Total assets.	 21,996,053
 Liabilities:	
Accounts payable.	56,772
Accrued wages and benefits	1,152,629
Pension obligation payable.	281,974
Intergovernmental payable	58,737
Deferred revenue	3,968,518
Accrued interest payable	15,125
Long-term liabilities:	
Due within one year.	721,026
Due in more than one year	5,506,010
Total liabilities	11,760,791
 Net Assets:	
Invested in capital assets, net of related debt.	5,601,869
Restricted for:	
Capital projects	1,604,387
Debt service.	1,531,535
Locally funded programs	13,784
State funded programs	25,376
Federally funded programs	111,398
Other purposes	94,224
Unrestricted.	1,252,689
Total net assets	\$ 10,235,262

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 5,703,155	\$ 332,773	\$ 158,985	\$ (5,211,397)
Special	2,151,576	-	591,878	(1,559,698)
Vocational	80,205	-	-	(80,205)
Support services:				
Pupil	573,413	-	121,963	(451,450)
Instructional staff	945,286	-	51,762	(893,524)
Board of education	33,537	-	-	(33,537)
Administration	1,043,678	-	48,788	(994,890)
Fiscal	414,136	-	5,330	(408,806)
Business	1,255	-	-	(1,255)
Operations and maintenance	1,049,346	-	-	(1,049,346)
Pupil transportation	966,760	-	-	(966,760)
Central	1,556	-	-	(1,556)
Operation of non-instructional	13,278	5,804	700	(6,774)
Extracurricular activities	512,862	269,078	-	(243,784)
Food service operations	462,532	184,214	169,373	(108,945)
Interest and fiscal charges	420,597	-	-	(420,597)
Total governmental activities	\$ 14,373,172	\$ 791,869	\$ 1,148,779	(12,432,524)
General Revenues:				
Property taxes levied for:				
General purposes				3,967,509
Debt service				661,436
Grants and entitlements not restricted to specific programs				7,179,545
Investment earnings				151,758
Miscellaneous				21,206
Total general revenues				11,981,454
Change in net assets				(451,070)
Net assets at beginning of year				10,686,332
Net assets at end of year				\$ 10,235,262

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,188,871	\$ 1,402,481	\$ 1,604,387	\$ 192,804	\$ 6,388,543
Receivables:					
Taxes	4,398,210	605,478	-	-	5,003,688
Accounts	84	-	-	576	660
Intergovernmental	-	-	-	413,115	413,115
Interfund loans	331,567	-	-	-	331,567
Prepayments	52,754	-	-	-	52,754
Materials and supplies inventory	-	-	-	3,707	3,707
Advances to other funds	143,386	-	-	-	143,386
Restricted assets:					
Equity in pooled cash and cash equivalents	94,224	-	-	-	94,224
Total assets	<u>\$ 8,209,096</u>	<u>\$ 2,007,959</u>	<u>\$ 1,604,387</u>	<u>\$ 610,202</u>	<u>\$ 12,431,644</u>
Liabilities:					
Accounts payable	\$ 32,243	\$ -	\$ -	\$ 24,529	\$ 56,772
Accrued wages and benefits	1,032,535	-	-	120,094	1,152,629
Pension obligation payable	255,753	-	-	26,221	281,974
Intergovernmental payable	52,323	-	-	6,414	58,737
Advances from other funds	-	-	-	143,386	143,386
Interfund loans payable	-	-	-	331,567	331,567
Deferred revenue	3,799,529	508,347	-	69,782	4,377,658
Total liabilities	<u>5,172,383</u>	<u>508,347</u>	<u>-</u>	<u>721,993</u>	<u>6,402,723</u>
Fund Balances:					
Reserved for encumbrances	315,914	-	-	44,030	359,944
Reserved for materials and supplies inventory	-	-	-	3,707	3,707
Reserved for prepayments	52,754	-	-	-	52,754
Reserved for property tax unavailable for appropriation	598,681	97,131	-	-	695,812
Reserved for advances	143,386	-	-	-	143,386
Reserved for debt service	-	1,402,481	-	-	1,402,481
Reserved for capital acquisition	55,999	-	-	-	55,999
Reserved for BWC Refunds	38,225	-	-	-	38,225
Unreserved, undesignated (deficit), reported in General fund	1,831,754	-	-	-	1,831,754
Permanent improvement fund	-	-	1,604,387	-	1,604,387
Special revenue funds	-	-	-	(159,528)	(159,528)
Total fund balances (deficit)	<u>3,036,713</u>	<u>1,499,612</u>	<u>1,604,387</u>	<u>(111,791)</u>	<u>6,028,921</u>
Total liabilities and fund balances	<u>\$ 8,209,096</u>	<u>\$ 2,007,959</u>	<u>\$ 1,604,387</u>	<u>\$ 610,202</u>	<u>\$ 12,431,644</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 6,028,921
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,039,362
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 339,358	
Intergovernmental revenue	69,782	
Total		409,140
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(15,125)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported		
Compensated absences	550,827	
General obligation bonds payable	5,588,711	
Capital lease obligation	87,498	
Total		(6,227,036)
Net assets of governmental activities		\$ 10,235,262

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 4,085,677	\$ 686,830	\$ -	\$ -	\$ 4,772,507
Tuition.	214,837	-	-	-	214,837
Charges for services.	-	-	-	184,214	184,214
Earnings on investments.	151,249	509	-	-	151,758
Classroom materials and fees.	117,936	-	-	-	117,936
Extracurricular.	-	-	-	257,938	257,938
Other local revenues.	27,010	-	-	11,840	38,850
Intergovernmental - intermediate.	-	-	-	32,745	32,745
Intergovernmental - state.	7,124,331	55,214	-	83,180	7,262,725
Intergovernmental - federal	-	-	-	962,372	962,372
Total revenues.	<u>11,721,040</u>	<u>742,553</u>	<u>-</u>	<u>1,532,289</u>	<u>13,995,882</u>
Expenditures:					
Current:					
Instruction:					
Regular	5,331,841	-	-	156,659	5,488,500
Special.	1,500,216	-	-	592,805	2,093,021
Vocational.	75,112	-	-	-	75,112
Support services:					
Pupil.	457,612	-	-	106,258	563,870
Instructional staff	872,029	-	-	48,347	920,376
Board of education	33,537	-	-	-	33,537
Administration.	964,825	-	-	41,184	1,006,009
Fiscal	395,925	13,569	-	5,330	414,824
Business	1,255	-	-	-	1,255
Operations and maintenance.	996,541	-	-	-	996,541
Pupil transportation	886,860	-	-	-	886,860
Central.	1,556	-	-	-	1,556
Operation of non-instructional services	12,578	-	-	700	13,278
Extracurricular activities.	183,103	-	-	290,785	473,888
Food service operations	-	-	-	446,287	446,287
Facilities acquisition and construction	56,705	-	-	-	56,705
Capital outlay	129,004	-	-	-	129,004
Debt service:					
Principal retirement	41,506	605,000	-	-	646,506
Interest and fiscal charges	4,828	181,437	-	-	186,265
Total expenditures	<u>11,945,033</u>	<u>800,006</u>	<u>-</u>	<u>1,688,355</u>	<u>14,433,394</u>
Excess of revenues under expenditures	<u>(223,993)</u>	<u>(57,453)</u>	<u>-</u>	<u>(156,066)</u>	<u>(437,512)</u>
Other financing sources (uses):					
Transfers in	-	-	1,604,387	53,935	1,658,322
Transfers (out)	(1,658,322)	-	-	-	(1,658,322)
Capital lease transaction	129,004	-	-	-	129,004
Total other financing sources.	<u>(1,529,318)</u>	<u>-</u>	<u>1,604,387</u>	<u>53,935</u>	<u>129,004</u>
Net change in fund balances	(1,753,311)	(57,453)	1,604,387	(102,131)	(308,508)
Fund balance (deficit) at beginning					
of year (restated)	4,790,024	1,557,065	-	(7,813)	6,339,276
Decrease in reserve for inventory	-	-	-	(1,847)	(1,847)
Fund balances (deficit) at end of year.	<u>\$ 3,036,713</u>	<u>\$ 1,499,612</u>	<u>\$ 1,604,387</u>	<u>\$ (111,791)</u>	<u>\$ 6,028,921</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (308,508)

*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. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$ 167,171	
Current year depreciation	<u>(424,772)</u>	(257,601)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.

(1,847)

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

Delinquent property taxes	(143,562)	
Intergovernmental	<u>69,782</u>	(73,780)

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

646,506

Proceeds of the capital lease transaction is recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(129,004)

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.

(234,332)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(92,504)

Change in net assets of governmental activities \$ (451,070)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,039,400	\$ 4,039,400	\$ 4,017,708	\$ (21,692)
Tuition.	209,479	219,325	216,216	(3,109)
Earnings on investments.	167,043	174,894	172,415	(2,479)
Classroom materials and fees	114,262	119,632	117,936	(1,696)
Other local revenues	28,363	29,696	29,275	(421)
Intergovernmental - state	6,902,350	7,226,770	7,124,331	(102,439)
Total revenues	<u>11,460,897</u>	<u>11,809,717</u>	<u>11,677,881</u>	<u>(131,836)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,398,329	5,566,474	5,476,924	89,550
Special.	1,048,307	1,326,725	1,509,408	(182,683)
Vocational.	37,420	47,358	75,877	(28,519)
Support services:				
Pupil.	323,679	409,644	456,796	(47,152)
Instructional staff	561,883	711,113	1,014,930	(303,817)
Board of education	25,475	32,241	31,189	1,052
Administration.	721,355	912,939	982,968	(70,029)
Fiscal	302,107	382,343	403,263	(20,920)
Business	5,015	6,347	2,855	3,492
Operations and maintenance.	755,385	956,006	1,069,916	(113,910)
Pupil transportation	838,555	1,061,266	972,027	89,239
Central.	-	-	1,556	(1,556)
Operation of non-instructional services	10,212	12,924	12,725	199
Extracurricular activities.	180,768	228,778	190,064	38,714
Facilities acquisition and construction.	2,526,209	3,197,141	57,294	3,139,847
Total expenditures	<u>11,734,699</u>	<u>14,851,299</u>	<u>12,257,792</u>	<u>2,593,507</u>
Excess of revenues over (under) expenditures.	<u>(273,802)</u>	<u>(3,041,582)</u>	<u>(579,911)</u>	<u>2,461,671</u>
Other financing sources (uses):				
Refund of prior year expenditures	335	335	2,940	2,605
Transfers in.	2,963	2,963	-	(2,963)
Transfers (out)	(40,000)	(40,000)	(1,658,322)	(1,618,322)
Advances in.	-	-	152,322	152,322
Advances (out)	(60,000)	(60,000)	(331,567)	(271,567)
Sale of capital assets	10	10	-	(10)
Total other financing sources (uses)	<u>(96,692)</u>	<u>(96,692)</u>	<u>(1,834,627)</u>	<u>(1,737,935)</u>
Net change in fund balance	(370,494)	(3,138,274)	(2,414,538)	723,736
Fund balance at beginning of year	2,279,784	2,279,784	2,279,784	-
Prior year encumbrances appropriated	3,087,081	3,087,081	3,087,081	-
Fund balance at end of year	<u>\$ 4,996,371</u>	<u>\$ 2,228,591</u>	<u>\$ 2,952,327</u>	<u>\$ 723,736</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents.	\$ 27,135	\$ 30,330
Total assets	27,135	\$ 30,330
Liabilities:		
Due to students	-	\$ 30,330
Total liabilities	-	\$ 30,330
Net Assets:		
Held in trust for scholarships	27,135	
Total net assets	\$ 27,135	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,277
Gifts and contributions.	100
	2,377
Total additions.	2,377
Deductions:	
Scholarships awarded	534
	534
Net assets at beginning of year	25,292
Net assets at end of year	\$ 27,135

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Black River Local School District (the "District") is located in portions of Medina County, Ashland County and Lorain County in Northeast Ohio. The District includes all of the villages of Sullivan, Spencer, Homerville and portions of surrounding townships, covering approximately 125 square miles.

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 comprehensive school, serving grades K through 8, and 1 high school. The District employs 79 non-certified and 131 certified (including administrative) full-time and part-time employees to provide services to approximately 1,748 students in grades K through 12 and various community groups, which ranks it 328 out of approximately 614 public and community school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Medina County Career Center

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

JOINT VENTURE WITHOUT EQUITY INTEREST

Lake Erie Educational Computer Association (LEECA)

LEECA is a joint venture among 30 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these school districts supports LEECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. LEECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 39, the District does not have an equity interest in LEECA because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool. The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The 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. The District does not have proprietary funds.

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 District's major governmental funds:

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

Debt Service - A fund provided for the retirement of bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans shall be paid into this fund.

Permanent Improvement - A fund provided to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Ohio Revised Code.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities, (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

FIDUCIARY FUNDS

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency). The specific timetable is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Medina County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to money market mutual funds, nonnegotiable certificates of deposits, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 2005 amounted to \$151,249, which includes \$54,170 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those related to government activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. 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 except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". Receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, age fifty seven or greater with two years of service, age fifty two or greater with seven years of service or any age with twenty seven years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The 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, advances, materials and supplies, prepayments, property taxes unavailable for appropriation, debt service, capital acquisition and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Restricted assets in general fund represent cash and cash equivalents that are restricted in use by state statute. See Note 17 for details.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 basic financial statements.

R. 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. Neither type of transaction occurred during fiscal year 2005.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 4,888,422	\$ 1,557,065	\$ 5,194	\$ 6,450,681
GASB Technical Bulletin No. 2004-2	<u>(98,398)</u>	<u>-</u>	<u>(13,007)</u>	<u>(111,405)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 4,790,024</u>	<u>\$ 1,557,065</u>	<u>\$ (7,813)</u>	<u>\$ 6,339,276</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 91,060
District Managed Student Activity	19,201
Teacher Development	111
Student Intervention	15,983
IDEA, Part B, Special Education	12,021
Title I, Disadvantaged Children/Targeted Assistance	160,661

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 moneys 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 District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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 (STAR Ohio);

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$3,876,886. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$3,516,835 of the District's bank balance of \$4,037,587 was exposed to custodial risk as discussed below, while \$520,752 was covered by Federal Deposit Insurance Corporation.

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>Greater than 24 Months</u>
FHLB	\$ 1,151,872	\$ 400,509	\$ 200,000	\$ 100,000	\$ 451,363
FFCB	304,472	-	-	-	304,472
FHLMC	1,154,005	-	-	100,110	1,053,895
STAR Ohio	52,872	52,872	-	-	-
	<u>\$ 2,663,221</u>	<u>\$ 453,381</u>	<u>\$ 200,000</u>	<u>\$ 200,110</u>	<u>\$ 1,809,730</u>

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,151,872	43.25
FFCB	304,472	11.43
FHLMC	1,154,005	43.33
STAR Ohio	52,872	1.99
	<u>\$ 2,663,221</u>	<u>100.00</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,876,886
Investments	2,663,221
Cash on hand	<u>125</u>
Total	<u>\$ 6,540,232</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,482,767
Private-purpose trust fund	27,135
Agency fund	<u>30,330</u>
Total	<u>\$ 6,540,232</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$331,567

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Permanent improvement fund	\$1,604,387
Nonmajor governmental funds	<u>53,935</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds will be eliminated on the government-wide financials. All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

- C. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 143,386

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The long-term interfund balances are not expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Medina, Ashland, and Lorain Counties. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date 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, 2005 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, 2005 was \$598,681 in the general fund and \$97,131 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$530,503 in the general fund, and \$92,555 in the debt service fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate	\$ 133,856,230	82.98	\$ 142,946,890	84.43
Commercial/industrial real estate	5,608,810	3.48	5,582,050	3.30
Public utility personal	14,754,030	9.16	12,696,125	7.50
Tangible personal property	<u>7,075,379</u>	<u>4.38</u>	<u>8,092,768</u>	<u>4.77</u>
Total assessed valuation	<u>\$ 161,294,449</u>	<u>100.00</u>	<u>\$ 169,317,833</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$56.83		\$56.83

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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 items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 5,003,688
Accounts	660
Intergovernmental	<u>413,115</u>
Total	<u>\$ 5,417,463</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected with the subsequent year.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 363,000	\$ -	\$ -	\$ 363,000
<i>Capital assets, being depreciated:</i>				
Land improvements	670,428	21,500	-	691,928
Building and improvements	11,654,718	10,800	-	11,665,518
Furniture and equipment	971,696	134,871	-	1,106,567
Vehicles	<u>1,112,673</u>	<u>-</u>	<u>-</u>	<u>1,112,673</u>
Total capital assets, being depreciated	<u>14,409,515</u>	<u>167,171</u>	<u>-</u>	<u>14,576,686</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(214,865)	(33,090)	-	(247,955)
Building and improvements	(3,112,942)	(256,491)	-	(3,369,433)
Furniture and equipment	(484,443)	(66,716)	-	(551,159)
Vehicles	<u>(663,302)</u>	<u>(68,475)</u>	<u>-</u>	<u>(731,777)</u>
Total accumulated depreciation	<u>(4,475,552)</u>	<u>(424,772)</u>	<u>-</u>	<u>(4,900,324)</u>
Governmental activities capital assets, net	<u>\$ 10,296,963</u>	<u>\$ (257,601)</u>	<u>\$ -</u>	<u>\$ 10,039,362</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 167,870
Special	39,881
Vocational	5,093
 <u>Support Services:</u>	
Pupil	8,344
Instructional staff	24,282
Administration	35,588
Operations and maintenance	16,735
Pupil transportation	73,691
Extracurricular activities	38,974
Food service operation	14,314
Total depreciation expense	<u>\$ 424,772</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement 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 general fund expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$129,004. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$41,506 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 46,334
2007	<u>46,335</u>
Total minimum lease payments	92,669
Less amount representing interest	<u>(5,171)</u>
Total	<u>\$ 87,498</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

		Restated Balance			Balance	Amounts
	Interest	Outstanding			Outstanding	Due in
	<u>Rate</u>	<u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/05</u>	<u>One Year</u>
Governmental Activities:						
General obligation bonds	Various	\$ 4,285,000	\$ -	\$ (605,000)	\$ 3,680,000	\$ 270,000
Capital appreciation bonds	Various	1,673,207	235,504	-	1,908,711	360,000
Capital lease obligations		-	129,004	(41,506)	87,498	43,003
Compensated absences		<u>516,434</u>	<u>64,594</u>	<u>(30,201)</u>	<u>550,827</u>	<u>48,023</u>
Total long-term obligations, governmental activities		<u>\$ 6,474,641</u>	<u>\$ 429,102</u>	<u>\$ (676,707)</u>	<u>\$ 6,227,036</u>	<u>\$ 721,026</u>

The above long-term obligation balances have been revised to present balances and activity of general obligation and capital appreciation bonds at June 30, 2005.

- B. On April 1, 2001, the District issued general obligation bonds (Series 2001 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1994 School Improvement General Obligation Bonds (principal \$4,780,000; interest rate 4.40%; stated maturity December 1, 2019). \$5,225,581 of the issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt, which was called for redemption on December 1, 2004, at a cost of 102% of par value, plus accrued interest. This refunded debt is considered defeased (in-substance). The outstanding amount of the defeased debt at June 30, 2005 was \$3,680,000. The advance refunding reduced cash flow required for debt service on general obligation bonds by \$990,001 over 18 years, and resulted in a net present value savings of \$238,793, using an interest rate of 4.6682% from date of delivery.

The refunding issue is comprised of both current interest bonds, par value \$4,585,000, and capital appreciation bonds, par value \$1,160,000. The average interest rate on the current interest bonds is 4.67%. The capital appreciation bonds mature each December 2007 through 2010 (effective interest ranging from 24.022% to 25.815%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported at June 30, 2005 was \$195,000, and has total accreted interest of \$297,180. Principal paid on the current interest bonds during fiscal year 2005 was \$260,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2019.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Excluding amounts defeased during 2003, \$2,780,000 remained a obligation of the District. This amount is comprised of both current interest bonds, par value \$980,000, and capital appreciation bonds, par value \$1,800,000. Interest accrues at rates ranging from 3.9% to 6.1%. The capital appreciation bonds have annual mandatory sinking fund redemption requirements and mature annually beginning December 1, 2005 through December 1, 2009 at a redemption price equal to 100% of the principal, plus accrued interest to date. The present value (as of issue date) reported at June 30, 2005 was \$474,995, total accreted interest of \$941,536 which is reported separately. The current interest bonds mature annually each December 1, through 2005, with interest payments due on June 1 and December 1 of each year. Principal paid during fiscal year 2005 on the current interest bonds was \$345,000.

D. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 270,000	\$ 162,383	\$ 432,383	\$ 360,000	\$ -	\$ 360,000
2007	280,000	151,930	431,930	360,000	-	360,000
2008	-	146,540	146,540	650,000	-	650,000
2009	-	146,540	146,540	650,000	-	650,000
2010	-	146,540	146,540	290,000	-	290,000
2011 - 2015	1,235,000	626,376	1,861,376	650,000	-	650,000
2016 - 2020	<u>1,895,000</u>	<u>237,916</u>	<u>2,132,916</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,680,000</u>	<u>\$ 1,618,225</u>	<u>\$5,298,225</u>	<u>\$ 2,960,000</u>	<u>\$ -</u>	<u>\$2,960,000</u>

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebttness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$11,222,898 (including available funds of \$1,499,612) and an unvoted debt margin of \$169,318.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - 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-two days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of seventy days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Health Insurance

The District is a member of the Stark County Schools Council, a public entity risk pool that currently operates as a common risk management and health insurance program for member school districts. The District pays a monthly premium to the pool for health, prescription drug, dental, and vision coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the pool has purchased stop-loss coverage from private insurance carriers to cover claims in excess of \$200,000 for any employee in a year or to cover aggregate claims in excess of 120% of the prior year's total claims. Individual coverage per person cannot exceed \$1,000,000 in claims during his or her lifetime.

NOTE 12 - RISK MANAGEMENT

A. Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2005, the District purchased from various insurance carriers general liability insurance, which carried a \$2 million per occurrence/\$4 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and are traditionally funded.

Settled claims have not exceeded any of the above coverages in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2004.

B. OSBA Workers' Compensation Group Rating Plan

The District is a member of the OSBA Workers' Compensation Group Rating Plan, a public entity risk pool, established in April 1991 (See Note 2.A.). The plan was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to join together in order to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required total contributions to SERS, for pension obligations and health care benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$240,393, \$215,520, and \$194,596, respectively; 47.13% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$127,104 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required total contributions to STRS, for pension obligations and health care benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$820,110, \$775,887, and \$708,458, respectively; 84.41% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$127,848 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$6,812 made by the District and \$16,357 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The District's liability is 6.2% of wages paid.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$58,579 during fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. 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 federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$83,677 during the 2005 fiscal year.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (2,414,538)
Net adjustment for revenue accruals	43,159
Net adjustment for expenditure accruals	(39,175)
Net adjustment for other sources/uses	305,309
Adjustment for encumbrances	351,934
GAAP basis	\$ (1,753,311)

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to any legal proceedings.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

The District is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year 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. In prior years, the District was also required to set aside money for BWC refunds. At June 30, 2005, the unspent portions of Bureau of Workers Compensation refunds continue to be a set-aside for budget stabilization.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES - (Continued)

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition, and BWC refunds. Disclosure of this information is required by state statute.

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ (335,395)	\$ -	\$ 38,225
Current year set-aside requirement	220,211	220,211	-
Qualifying disbursements	<u>(299,075)</u>	<u>(164,212)</u>	<u>-</u>
Total	<u>\$ (414,259)</u>	<u>\$ 55,999</u>	<u>\$ 38,225</u>
Balance carried forward to FY 2006	<u>\$ (414,259)</u>	<u>\$ 55,999</u>	<u>\$ 38,225</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for capital acquisition	\$ 55,999
Amount restricted for BWC refunds	<u>38,225</u>
Total restricted assets	<u>\$ 94,224</u>

SUPPLEMENTAL DATA

BLACK RIVER LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION					
<i>Nutrition Cluster:</i>					
(A), (C) Food Donation	10.550	N/A	\$ -	\$ 22,399	\$ -
(A), (D) School Breakfast Program	10.553	048462-05PU-2004	9,380		9,380
(A), (D) School Breakfast Program	10.553	048462-05PU-2005	19,224		19,224
(A), (D) National School Lunch Program	10.555	048462-LLP4-2004	42,277		42,277
(A), (D) National School Lunch Program	10.555	048462-LLP4-2005	99,902		99,902
Total U.S. Department of Agriculture			<u>170,783</u>	<u>22,399</u>	<u>170,783</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:					
<i>Special Education Cluster:</i>					
(B) Special Education Grants to States	84.027	048462-6BSF-2004	136,514		481
(B) Special Education Grants to States	84.027	048462-6BSF-2005	110,480		290,201
Total Special Education- Grants to States			<u>246,994</u>		<u>290,682</u>
(B) Special Education- Preschool Grants	84.173	048462-PGS1-2004	3,192		-
(B) Special Education- Preschool Grants	84.173	048462-PGD7-2004-P	1,800		-
(B) Special Education- Preschool Grants	84.173	048462-PGS1-2005	3,153		3,895
Total Special Education - Preschool Grants			<u>8,145</u>		<u>3,895</u>
Total Special Education Cluster			<u>255,139</u>		<u>294,577</u>
Title I- Grants to Local Education Agencies	84.010	048462-C1S1-2003			14,333
Title I- Grants to Local Education Agencies	84.010	048462-C1S1-2004	23,995		37,447
Title I- Grants to Local Education Agencies	84.010	048462-C1S1-2005	279,547		373,424
Total Title I- Grants to Local Education Agencies			<u>303,542</u>		<u>425,204</u>
Safe and Drug Free Schools and Communities- State Grants	84.186	048462-DRS1-2004	11,798		-
Safe and Drug Free Schools and Communities- State Grants	84.186	048462-DRS1-2005	4,301		11,618
Total Safe and Drug Free Schools and Communities-State Grants			<u>16,099</u>		<u>11,618</u>
State Grants for Innovative Programs	84.298	048462-C2S1-2004	7,148		-
State Grants for Innovative Programs	84.298	048462-TRS1-2005	2,472		1,823
Total State Grants for Innovative Programs			<u>9,620</u>		<u>1,823</u>
Education Technology State Grant	84.318	048462-TJS1-2003	14,470		-
Education Technology State Grant	84.318	048462-TJS1-2004	10,684		-
Education Technology State Grant	84.318	048462-TJS1-2005	7,654		9,218
Total Education Technology State Grants			<u>32,808</u>		<u>9,218</u>
Improving Teacher Quality State Grants	84.367	048462-TRS1-2003	-		2,508
Improving Teacher Quality State Grants	84.367	048462-TRS1-2004	85,242		3,494
Improving Teacher Quality State Grants	84.367	048462-TRS1-2005	59,107		75,212
Total Improving Teacher Quality State Grants			<u>144,349</u>		<u>81,214</u>
Total U. S. Department of Education			<u>761,557</u>		<u>823,654</u>
Total Federal Financial Assistance			<u>\$ 932,340</u>	<u>\$ 22,399</u>	<u>\$ 994,437</u>

- (A) Included as part of the "Nutrition Grant Cluster" in determining major programs
- (B) Included as part of "Special Education Cluster" in determining major programs.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in first-out basis
- (E) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County (the "District") as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2006. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated January 25, 2006.

Board of Education
Black River Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we have reported to the management of the District in a separate letter dated January 25, 2006.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 25, 2006



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Federal Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

Compliance

We have audited the compliance of the Black River Local School District, Medina County, (the “District”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Board of Education
Black River Local School District

Internal Control Over Compliance

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

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 grant caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Julian & Grube, Inc.
January 25, 2006

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I: Grants to Local Educational Agencies - CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

None

3. FINDINGS AND FEDERAL AWARDS

None

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDING
JUNE 30, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-BRLSD-001	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	Yes	N/A



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BLACK RIVER LOCAL SCHOOL DISTRICT

MEDINA 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
APRIL 4, 2006**