



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Middle Bass Local School District
Ottawa County
P.O. Box 100
Middle Bass, Ohio 43446

To the Board of Education:

We have audited the accompanying financial statements of the Middle Bass Local School District (the District) as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Ohio Administrative Code §117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Middle Bass Local School District, Ottawa County, as of June 30, 2002 and 2001, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 19, 2002

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH BALANCE - GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	2002	2001
Cash Receipts:		
Local Sources:		
Taxes	\$90,162	\$84,564
Earnings on Investments	4,070	4,456
Miscellaneous	392	500
State Sources:		
Unrestricted Grant-in Aid	10,385	9,036
Total Cash Receipts	105,009	98,556
Cash Disbursements:		
Other Instruction	37,833	36,322
Supporting Services:		
Board of Education	5,507	3,987
Administration	122	2,873
Fiscal Services	14,704	15,349
Operation and Maintenance - Plant	3,670	3,290
Pupil Transportation	24,300	21,883
Extracurricular Activities:		
Academic and Subject Oriented Activities	5,977	3,025
Total Cash Disbursements	92,113	86,729
Excess of Cash Receipts Over Cash Disbursements	12,896	11,827
Other Financing Receipts:		
Refund of Prior Year Disbursements		300
Total Other Financing Receipts		300
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	12,896	12,127
Cash Balance, July 1	145,051	132,924
Cash Balance, June 30	\$157,947	\$145,051

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

At June 30, 2002 and 2001, there is a restricted balance of \$11,999. See Note 9 to these financial statements.

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**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001**

1. DESCRIPTION OF THE ENTITY

The Middle Bass Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Middle Bass Local School District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under a five-member elected Board of Education and is responsible for the provision of public education to residents of the District.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

These statements include adequate disclosures of material matters in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

B. Cash and Investments

Certificates of deposit are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

C. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its only fund into the following type:

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

D. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Education must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of July 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	<u>2002</u>	<u>2001</u>
Demand deposits	\$67,947	\$55,051
Certificates of deposit	90,000	90,000
Total deposits and investments	<u>\$157,947</u>	<u>\$145,051</u>

Deposits are insured by the Federal Depository Insurance Corporation and collateral in the financial institution's public entity deposit pool.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 2002 and 2001 was as follows:

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$70,038	\$105,009	\$34,971

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$126,975	\$92,113	\$34,862

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$70,000	\$98,856	\$28,856

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$122,675	\$86,729	\$35,946

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the April 1 date for which rates are adopted by the District. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to Ottawa County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

6. RETIREMENT SYSTEMS

The District's full time employees belong to the School Employee Retirement System (SERS). SERS is a cost sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of SERS contributed 9 percent of their gross salaries. The District contributed an amount equal to 14 percent of the participant's gross salaries. The District has paid all contributions required through June 30, 2002.

7. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Commercial property; and
- Education liability.

8. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

9. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

The following cash basis information describes the changes in the year-end set-aside amounts for textbook, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute. Currently, the District does not provide any teaching services or classroom activities. All Middle Bass students are provided transportation to another District at the expense of the Middle Bass Local

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

School District. The District is providing the calculation of textbook and capital set-asides as required by State statute, however, the District does not expect to have future expenditures of the type that can be used to eliminate or reduce the reserves.

2002 Set-aside Amounts

	Capital		Totals
	Textbooks	Acquisitions	
Set-aside Cash balance as of June 30, 2001	\$6,545	\$5,454	
Current Year Set-aside Requirement			
Current Year Offsets			
Qualifying Disbursements			
Total	<u>\$6,545</u>	<u>\$5,454</u>	
Cash Balance Carried Forward to Fiscal Year 2003	<u>\$6,545</u>	<u>\$5,454</u>	
Total Restricted Cash			<u>\$11,999</u>

2001 Set-aside Amounts

	Capital		Budget	Totals
	Textbooks	Acquisitions	Stabilization	
Set-aside Cash balance as of June 30, 2000	\$3,686	\$2,595	\$1,459	
Current Year Set-aside Requirement	2,859	2,859		
Reduction of Budget Stabilization Set-Aside in Accordance with S.B. 345			(1,459)	
Current Year Offsets				
Qualifying Disbursements				
Total	<u>\$6,545</u>	<u>\$5,454</u>		
Cash Balance Carried Forward to Fiscal Year 2002	<u>\$6,545</u>	<u>\$5,454</u>		
Total Restricted Cash				<u>\$11,999</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. S.B. 345 place special restrictions of the use of any Bureau of Workers Compensation (BWC) rebate money remaining in the budget stabilization as of April 10, 2001. The District had no BWC rebate monies as of June 30, 2001. Other non-BWC monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the general fund. The District is still required by law to maintain the textbook reserve and capital acquisition reserve.

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

Middle Bass Local School District
Ottawa County
P.O. Box 100
Middle Bass, Ohio 43446

To the Board of Education:

We have audited the financial statements of the Middle Bass Local School District (the District) as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 19, 2002, in which we noted that the District has prepared its annual financial report on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10162-001.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated November 19, 2002.

This report is intended for the information and use of management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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Jim Petro
Auditor of State

November 19, 2002

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002 AND 2001**

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

FINDING NUMBER 2002-10162-001

Noncompliance Citation

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its annual financial report for the fiscal years ending June 30, 2002 and 2001 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

We recommend that the District make arrangements to prepare and file their financial report in accordance with generally accepted accounting principles. The District understands this requirement but feels there are no cost-benefits to converting to GAAP.

**MIDDLE BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-10162-001	Ohio Administrative Code § 117-2-01, (New § 117-2-03 (B)), Failure to file GAAP report.	No	Not corrected. Reissued as Finding 2002-10162-001.



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MIDDLE BASS LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**