

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

***BASIC FINANCIAL STATEMENTS***  
***(AUDITED)***  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004

**CONNIE HANGE, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Education  
Black River Local School District  
257 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 Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 to June 30, 2004. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 19, 2005

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**BLACK RIVER LOCAL SCHOOL DISTRICT**  
**MEDINA COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund .....	19
Statement of Fiduciary Net Assets - Fiduciary Funds .....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	21
Notes to the Basic Financial Statements.....	22 - 45
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards .....	46
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	47 - 48
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	49 - 50
Schedule of Findings <i>OMB Circular A-133 § .505</i> .....	51 - 52

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## 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”) as of and for the fiscal year ended June 30, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

*Trimble, Julian, & Grube, Inc.*

Trimble, Julian & Grube, Inc.  
December 17, 2004



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$62,373 which represents a 0.58% decrease from 2003.
- General revenues accounted for \$11,705,496 in revenue or 87.09% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$1,735,944 or 12.91% of total revenues of \$13,441,440.
- The District had \$13,503,813 in expenses related to governmental activities; only \$1,735,944 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 \$11,705,496 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$11,195,148 in revenues and \$11,532,394 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$337,246 from \$5,225,668 to \$4,888,422.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$713,563 in revenues and \$796,106 in expenditures. During fiscal year 2004, the debt service fund's fund balance decreased \$82,543 from \$1,639,608 to \$1,557,065.

**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 and debt service 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, 2004  
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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 2004?" 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 and debt service 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, 2004  
UNAUDITED

***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 22-45 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

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

	<b>Net Assets</b>	
	Governmental Activities 2004	Governmental Activities 2003
<b><u>Assets</u></b>		
Current and other assets	\$ 12,552,533	\$ 12,536,436
Capital assets	<u>10,296,963</u>	<u>10,265,446</u>
Total assets	<u>22,849,496</u>	<u>22,801,882</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,688,523	5,154,687
Long-term liabilities	<u>6,474,641</u>	<u>6,898,490</u>
Total liabilities	<u>12,163,164</u>	<u>12,053,177</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,338,756	3,934,791
Restricted	1,613,210	1,752,727
Unrestricted	<u>4,734,366</u>	<u>5,061,187</u>
Total net assets	<u>\$ 10,686,332</u>	<u>\$ 10,748,705</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$10,686,332. At year-end, net assets were \$10,686,332.

At year-end, capital assets represented 45.06% 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, 2004, were \$4,338,756. 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.

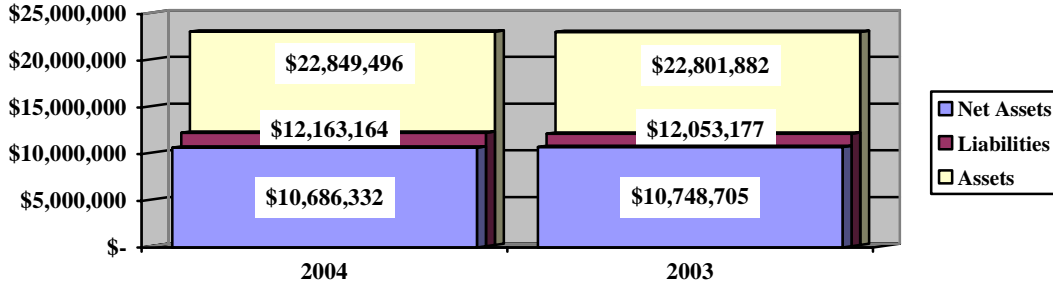
A portion of the District's net assets, \$1,613,210, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,734,366 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

Governmental activities of the District decreased \$62,373 between fiscal years.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2004 and 2003.

**Change in Net Assets**

	Governmental Activities 2004	Governmental Activities 2003
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 680,538	\$ 694,102
Operating grants and contributions	1,013,956	937,529
Capital grants and contributions	41,450	
General revenues:		
Property taxes	4,532,212	4,141,397
Grants and entitlements	6,993,137	6,918,990
Investment earnings	148,931	188,470
Miscellaneous	31,216	49,842
Total revenues	\$ 13,441,440	\$ 12,930,330

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Change in Net Assets**

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,596,093	\$ 5,073,136
Special	1,910,934	1,743,299
Vocational	63,806	56,154
Other	10,000	-
Support services:		
Pupil	475,962	449,394
Instructional staff	717,470	571,999
Board of education	31,698	34,870
Administration	925,303	751,426
Fiscal	396,131	326,544
Business	10,946	18,501
Operations and maintenance	945,428	752,529
Pupil transportation	937,041	914,592
Central	38,198	8,023
Operations of non-instructional services	12,302	11,095
Food service operations	482,857	413,876
Extracurricular activities	540,610	449,317
Interest and fiscal charges	<u>409,034</u>	<u>406,784</u>
Total expenses	<u>13,503,813</u>	<u>11,981,539</u>
Change in net assets	<u>\$ (62,373)</u>	<u>\$ 948,791</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$62,373. Total governmental expenses of \$13,503,813 were offset by program revenues of \$1,735,944 and general revenues of \$11,705,496. Program revenues supported 12.86% of the total governmental expenses.

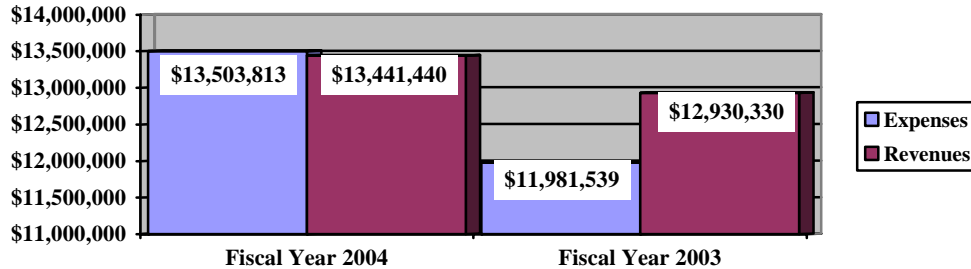
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 85.74% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

**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**

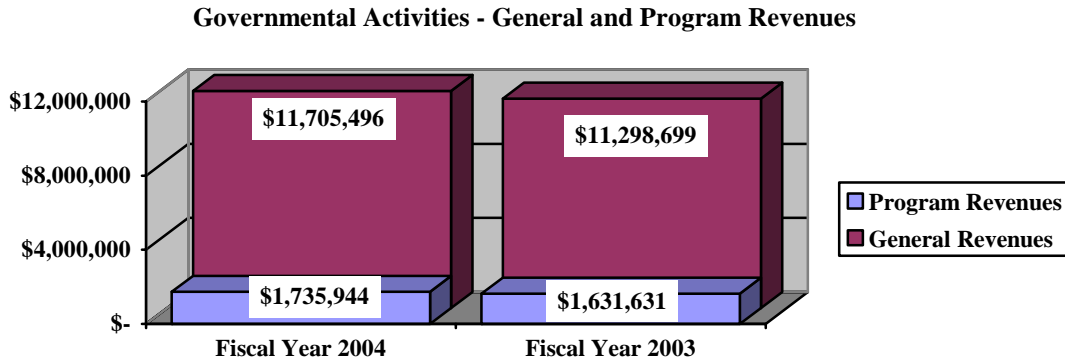
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,596,093	\$ 5,194,139	\$ 5,073,136	\$ 4,642,045
Special	1,910,934	1,332,493	1,743,299	1,358,186
Vocational	63,806	63,806	56,154	56,154
Other	10,000	10,000	-	-
Support services:				
Pupil	475,962	396,821	449,394	333,284
Instructional staff	717,470	693,988	571,999	546,254
Board of education	31,698	31,698	34,870	34,870
Administration	925,303	898,947	751,426	593,730
Fiscal	396,131	396,131	326,544	320,509
Business	10,946	7,365	18,501	18,501
Operations and maintenance	945,428	945,263	752,529	742,029
Pupil transportation	937,041	936,779	914,592	879,914
Central	38,198	18,709	8,023	8,023
Operations of non-instructional services	12,302	6,216	11,095	3,906
Food service operations	482,857	143,953	413,876	52,031
Extracurricular activities	540,610	282,527	449,317	353,688
Interest and fiscal charges	409,034	409,034	406,784	406,784
<b>Total expenses</b>	<b>\$ 13,503,813</b>	<b>\$ 11,767,869</b>	<b>\$ 11,981,539</b>	<b>\$ 10,349,908</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 87.07% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.14%. 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 2004.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$6,450,681, which is lower than last year's total of \$6,814,720. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 4,888,422	\$ 5,225,668	\$(337,246)
Debt Service	1,557,065	1,639,608	(82,543)
Other Governmental	<u>5,194</u>	<u>(50,556)</u>	<u>55,750</u>
Total	<u>\$ 6,450,681</u>	<u>\$ 6,814,720</u>	<u>\$(364,039)</u>

**General Fund**

The District's general fund's fund balance decreased by \$337,246. The decrease in fund balance can be attributed to expenditures increasing 14.47% and revenue only increasing 4.53%. 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,848,376	\$ 3,414,216	12.72 %
Tuition	139,040	154,506	(10.01) %
Earnings on investments	148,674	149,239	(0.38) %
Intergovernmental	6,919,745	6,848,290	1.04 %
Other revenues	<u>139,313</u>	<u>144,224</u>	(3.41) %
Total	<u>\$ 11,195,148</u>	<u>\$10,710,475</u>	4.53 %
<b><u>Expenditures</u></b>			
Instruction	\$ 6,654,619	\$ 5,923,794	12.34 %
Support services	4,188,985	3,615,169	15.87 %
Operation of non-instructional services	11,867	9,120	30.12 %
Extracurricular activities	217,085	174,867	24.14 %
Facilities acquisition and construction	<u>321,890</u>	<u>231,338</u>	39.14 %
Total	<u>\$ 11,394,446</u>	<u>\$ 9,954,288</u>	14.47 %

***Debt Service Fund***

The District's debt service fund's fund balance decreased by \$82,543. The debt service fund had \$713,563 in revenues and \$796,106 in expenditures. The decrease in fund balance can be attributed to principal retirement increases.

***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 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$9,984,891, which was higher than the original budgeted revenues estimate of \$10,701,424. Actual revenues and other financing sources for fiscal year 2004 were \$11,111,250. This represents a \$1,126,359 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,577,262 were increased to \$14,852,639 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$14,551,726, which was \$300,913 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, 2004  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2004, the District had \$10,296,963 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 2004 balances compared to 2003:

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 363,000	\$ 363,000
Land improvements	455,563	487,578
Building and improvements	8,541,776	8,499,901
Furniture and equipment	487,253	511,101
Vehicles	<u>449,371</u>	<u>403,866</u>
<b>Total</b>	<b><u>\$ 10,296,963</u></b>	<b><u>\$ 10,265,446</u></b>

Total additions to capital assets for 2004 were \$430,430. The District recorded \$394,861 in depreciation expense for fiscal year 2004.

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

***Debt Administration***

At June 30, 2004, the District had \$5,958,207 in general obligation bonds outstanding. Of this total, \$605,000 is due within one year and \$5,353,207 is due within greater than one year. The following table summarizes the bonds outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental	Governmental
	Activities	Activities
	<u>2004</u>	<u>2003</u>
General obligation bonds and capital appreciation bonds		
1994 improvement bonds	\$ 1,624,363	\$ 1,825,492
2001 refunding bonds	<u>4,333,844</u>	<u>4,505,163</u>
<b>Total</b>	<b><u>\$ 5,958,207</u></b>	<b><u>\$ 6,330,655</u></b>

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, 2004  
UNAUDITED

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 9 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 75 percent or \$72 million, from \$96 million to \$168 million in 2005. Another significant factor in this calculation is student enrollment, which has increased 67 percent or 696 students, from 1,033 students in 1997/1998 to 1,729 students in 2004/2005. The cumulative increase in basic aid for the District from 1997/1998 to 2004/2005 is 64% or \$2.5 million. Tax collections have increased 33% or approximately \$1 million from \$3.0 million to \$4.0 million. Voter last approved a new operating levy in 1997.

**Budget**

Approximately 75% 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. Currently, the district has no permanent improvement fund therefore all such expenditures are made from the general fund. 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. 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**

Black River Local School District has chosen to participate in the Ohio School Facilities Commission Expedited Local Partnership Program. A comprehensive facilities plan is in the final stage of development and is expected to be approved by the Commission in early 2005. 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 will be asked to pass 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.

**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, 2004

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 6,933,840
Receivables:	
Taxes . . . . .	5,210,720
Accounts . . . . .	28,318
Intergovernmental . . . . .	320,061
Prepayments . . . . .	54,040
Materials and supplies inventory . . . . .	5,554
Capital assets:	
Land . . . . .	363,000
Depreciable capital assets, net. . . . .	9,933,963
Capital assets, net . . . . .	10,296,963
 Total assets. . . . .	 22,849,496
 <b>Liabilities:</b>	
Accounts payable. . . . .	31,653
Accrued wages and benefits . . . . .	1,173,073
Pension obligation payable. . . . .	296,749
Intergovernmental payable . . . . .	66,009
Deferred revenue . . . . .	4,104,742
Accrued interest payable . . . . .	16,297
Long-term liabilities:	
Due within one year. . . . .	684,525
Due in more than one year. . . . .	5,790,116
Total liabilities . . . . .	12,163,164
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,338,756
Restricted for:	
Debt service. . . . .	1,613,210
Unrestricted. . . . .	4,734,366
Total net assets . . . . .	<b>\$ 10,686,332</b>

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, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 5,596,093	\$ 242,913	\$ 152,799	\$ 6,242	\$ (5,194,139)
Special . . . . .	1,910,934	-	578,441	-	(1,332,493)
Vocational . . . . .	63,806	-	-	-	(63,806)
Other . . . . .	10,000	-	-	-	(10,000)
Support services:					
Pupil. . . . .	475,962	-	79,141	-	(396,821)
Instructional staff . . . . .	717,470	-	23,482	-	(693,988)
Board of education . . . . .	31,698	-	-	-	(31,698)
Administration. . . . .	925,303	-	4,364	21,992	(898,947)
Fiscal. . . . .	396,131	-	-	-	(396,131)
Business. . . . .	10,946	-	3,581	-	(7,365)
Operations and maintenance . . . . .	945,428	-	165	-	(945,263)
Pupil transportation . . . . .	937,041	-	262	-	(936,779)
Central . . . . .	38,198	-	6,273	13,216	(18,709)
Operation of non-instructional. . . . .	12,302	6,086	-	-	(6,216)
Food service operations . . . . .	482,857	173,456	165,448	-	(143,953)
Extracurricular activities. . . . .	540,610	258,083	-	-	(282,527)
Interest and fiscal charges. . . . .	409,034	-	-	-	(409,034)
Total governmental activities . . . . .	<u>\$ 13,503,813</u>	<u>\$ 680,538</u>	<u>\$ 1,013,956</u>	<u>\$ 41,450</u>	<u>(11,767,869)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					3,885,057
Debt service. . . . .					647,155
Grants and entitlements not restricted to specific programs. . . . .					6,993,137
Investment earnings . . . . .					148,931
Miscellaneous . . . . .					31,216
Total general revenues. . . . .					<u>11,705,496</u>
Change in net assets . . . . .					(62,373)
<b>Net assets at beginning of year. . . . .</b>					<u>10,748,705</u>
<b>Net assets at end of year . . . . .</b>					<u>\$ 10,686,332</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 5,328,640	\$ 1,464,510	\$ 102,465	\$ 6,895,615
Receivables:				
Taxes . . . . .	4,449,878	760,842	-	5,210,720
Accounts . . . . .	3,728	-	24,590	28,318
Intergovernmental . . . . .	209	-	319,852	320,061
Interfund loans . . . . .	295,708	-	-	295,708
Prepayments . . . . .	54,040	-	-	54,040
Materials and supplies inventory . . . . .	-	-	5,554	5,554
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	<u>38,225</u>	<u>-</u>	<u>-</u>	<u>38,225</u>
Total assets . . . . .	<u>\$ 10,170,428</u>	<u>\$ 2,225,352</u>	<u>\$ 452,461</u>	<u>\$ 12,848,241</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 27,364	\$ -	\$ 4,289	\$ 31,653
Accrued wages and benefits . . . . .	1,038,729	-	134,344	1,173,073
Compensated absences payable . . . . .	58,111	-	-	58,111
Pension obligation payable. . . . .	180,820	-	4,524	185,344
Intergovernmental payable. . . . .	57,607	-	8,402	66,009
Interfund loans payable. . . . .	-	-	295,708	295,708
Deferred revenue. . . . .	<u>3,919,375</u>	<u>668,287</u>	<u>-</u>	<u>4,587,662</u>
Total liabilities . . . . .	<u>5,282,006</u>	<u>668,287</u>	<u>447,267</u>	<u>6,397,560</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	3,054,565	-	55,410	3,109,975
Reserved for materials and supplies inventory. . . . .	-	-	5,554	5,554
Reserved for prepayments . . . . .	54,040	-	-	54,040
Reserved for property tax unavailable for appropriation . . . . .	530,503	92,555	-	623,058
Reserved for debt service. . . . .	-	1,464,510	-	1,464,510
Reserved for BWC Refunds . . . . .	38,225	-	-	38,225
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	1,211,089	-	-	1,211,089
Special revenue funds. . . . .	<u>-</u>	<u>-</u>	<u>(55,770)</u>	<u>(55,770)</u>
Total fund balances . . . . .	<u>4,888,422</u>	<u>1,557,065</u>	<u>5,194</u>	<u>6,450,681</u>
Total liabilities and fund balances . . . . .	<u>\$ 10,170,428</u>	<u>\$ 2,225,352</u>	<u>\$ 452,461</u>	<u>\$ 12,848,241</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, 2004

<b>Total governmental fund balances</b>		\$ 6,450,681
<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.		10,296,963
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		482,920
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	458,323	
Pension obligation payable	111,405	
General obligation bonds payable	5,958,207	
Accrued interest payable	16,297	
	(6,544,232)	
Total		(6,544,232)
<b>Net assets of governmental activities</b>		\$ 10,686,332

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, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,848,376	\$ 639,914	\$ -	\$ 4,488,290
Tuition. . . . .	139,040	-	530	139,570
Charges for services. . . . .	-	-	173,456	173,456
Earnings on investments. . . . .	148,674	257	-	148,931
Classroom materials and fees. . . . .	103,343	-	-	103,343
Extracurricular. . . . .	-	-	241,510	241,510
Other local revenues. . . . .	35,970	-	17,905	53,875
Intergovernmental - Intermediate. . . . .	-	-	25,736	25,736
Intergovernmental - State. . . . .	6,919,745	73,392	107,737	7,100,874
Intergovernmental - Federal . . . . .	-	-	1,108,428	1,108,428
Total revenue . . . . .	<u>11,195,148</u>	<u>713,563</u>	<u>1,675,302</u>	<u>13,584,013</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,307,630	-	191,767	5,499,397
Special. . . . .	1,278,124	-	595,080	1,873,204
Vocational. . . . .	58,865	-	-	58,865
Other. . . . .	10,000	-	-	10,000
Support services:				
Pupil. . . . .	382,723	-	83,594	466,317
Instructional staff . . . . .	674,885	-	41,552	716,437
Board of education . . . . .	30,414	-	-	30,414
Administration. . . . .	845,221	-	39,128	884,349
Fiscal . . . . .	382,124	12,428	-	394,552
Business . . . . .	6,347	-	4,599	10,946
Operations and maintenance. . . . .	890,549	-	163	890,712
Pupil transportation . . . . .	976,722	-	258	976,980
Central. . . . .	-	-	38,198	38,198
Operation of non-instructional services . . . . .	11,867	-	699	12,566
Food service operations . . . . .	-	-	474,811	474,811
Extracurricular activities. . . . .	217,085	-	284,940	502,025
Facilities acquisition and construction . . . . .	321,890	-	-	321,890
Debt service:				
Principal retirement . . . . .	-	575,000	-	575,000
Interest and fiscal charges . . . . .	-	208,678	-	208,678
Total expenditures . . . . .	<u>11,394,446</u>	<u>796,106</u>	<u>1,754,789</u>	<u>13,945,341</u>
Excess of revenues under expenditures . . . . .	<u>(199,298)</u>	<u>(82,543)</u>	<u>(79,487)</u>	<u>(361,328)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	137,998	137,998
Transfers (out) . . . . .	(137,948)	-	(50)	(137,998)
Total other financing sources. . . . .	<u>(137,948)</u>	<u>-</u>	<u>137,948</u>	<u>-</u>
Net change in fund balances . . . . .	(337,246)	(82,543)	58,461	(361,328)
<b>Fund balance (deficit) at beginning of year.</b>	5,225,668	1,639,608	(50,556)	6,814,720
<b>Decrease in reserve for inventory . . . . .</b>	-	-	(2,711)	(2,711)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 4,888,422</u>	<u>\$ 1,557,065</u>	<u>\$ 5,194</u>	<u>\$ 6,450,681</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, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	(361,328)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$430,430) exceed depreciation expense (\$394,861) in the current period.		35,569
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(4,052)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		(2,711)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(142,573)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		575,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and therefore requires the use of current financial resources. 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 accreted interest on the capital appreciation bonds.		(200,356)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		38,078
		<hr style="border-top: 1px solid black;"/>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(62,373)</b>
		<hr style="border-top: 3px double black;"/>

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,603,851	\$ 3,362,548	\$ 3,764,528	\$ 401,980
Tuition . . . . .	134,309	125,316	140,297	14,981
Earnings on investments . . . . .	142,486	132,946	148,839	15,893
Classroom materials and fees . . . . .	98,931	92,307	103,342	11,035
Other local revenues . . . . .	31,148	29,063	32,537	3,474
Intergovernmental - State . . . . .	6,678,030	6,230,890	6,920,325	689,435
Total revenue . . . . .	<u>10,688,755</u>	<u>9,973,070</u>	<u>11,109,868</u>	<u>1,136,798</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,196,248	5,294,407	5,164,228	130,179
Special . . . . .	1,264,147	1,288,028	1,256,358	31,670
Vocational . . . . .	49,035	49,961	48,733	1,228
Support services:				
Pupil . . . . .	381,990	389,206	379,636	9,570
Instructional staff . . . . .	665,311	677,880	661,212	16,668
Board of education . . . . .	31,627	32,224	31,432	792
Administration . . . . .	853,207	869,325	847,950	21,375
Fiscal . . . . .	369,121	376,094	366,847	9,247
Business . . . . .	6,386	6,507	6,347	160
Operations and maintenance . . . . .	922,763	940,195	917,077	23,118
Pupil transportation . . . . .	1,028,031	1,047,452	1,021,697	25,755
Operation of non-instructional services . . . . .	11,952	12,177	11,878	299
Extracurricular activities . . . . .	213,307	217,337	211,993	5,344
Facilities acquisition and construction . . . . .	3,300,065	3,362,407	3,279,731	82,676
Total expenditures . . . . .	<u>14,293,190</u>	<u>14,563,200</u>	<u>14,205,119</u>	<u>358,081</u>
Excess of revenues over (under) expenditures . . . . .	<u>(3,604,435)</u>	<u>(4,590,130)</u>	<u>(3,095,251)</u>	<u>1,494,879</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	1,283	1,197	1,340	143
Transfers in . . . . .	11,346	10,586	-	(10,586)
Transfers (out) . . . . .	(130,806)	(133,277)	(147,948)	(14,671)
Advances (out) . . . . .	(153,266)	(156,162)	(198,659)	(42,497)
Proceeds from sale of capital assets . . . . .	40	38	42	4
Total other financing sources (uses) . . . . .	<u>(271,403)</u>	<u>(277,618)</u>	<u>(345,225)</u>	<u>(67,607)</u>
Net change in fund balance . . . . .	(3,875,838)	(4,867,748)	(3,440,476)	1,427,272
<b>Fund balance at beginning of year . . . . .</b>	2,388,818	2,388,818	2,388,818	-
<b>Prior year encumbrances appropriated . . . . .</b>	3,331,442	3,331,442	3,331,442	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,844,422</u>	<u>\$ 852,512</u>	<u>\$ 2,279,784</u>	<u>\$ 1,427,272</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, 2004

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$ 25,292	\$ 34,521
Total assets . . . . .	25,292	\$ 34,521
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 168
Due to students . . . . .	-	34,353
Total liabilities . . . . .	-	\$ 34,521
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	25,292	
Total net assets . . . . .	\$ 25,292	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 760
<b>Deductions:</b>	
Scholarships awarded . . . . .	600
Change in net assets. . . . .	160
<b>Net assets at beginning of year . . . . .</b>	<b>25,132</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 25,292</b>

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, 2004

**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 119 non-certified and 141 certified (including administrative) full-time and part-time employees to provide services to approximately 1,669 students in grades K through 12 and various community groups, which ranks it 335<sup>th</sup> out of approximately 613 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". The reporting entity is comprised of the primary government, component units and other organization 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, preschool 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 organizations 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 this 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, 2004

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

*JOINTLY GOVERNED ORGANIZATIONS*

Medina County Career Center - JVSD

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, 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, 2004

**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.

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; and (b) for grants and other resources whose use is restricted to a particular purpose.

*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, 2004

**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.

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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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 final Amended Certificate issued for fiscal year 2004.
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 2004. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
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 2004, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The District has invested funds in STAR Ohio during fiscal year 2004. 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, 2004.

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 2004 amounted to \$148,674, which includes \$34,801 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 Treasurer'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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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." 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.

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, 2004, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**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, materials and supplies, prepayments, property taxes unavailable for appropriation, debt service 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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**P. Restricted Assets**

Restricted assets in general fund represent cash and cash equivalents that are restricted in use by state statute. See Note 16 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 basis 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 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Compliance**

The District's Food Service fund had a negative cash fund balance at June 30, 2004, contrary to Ohio Revised Code Section 5705.10.

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 35,441
Other Local Grants	1,161
Teacher Development	111
Summer Intervention	1,914
Title I	131,891
Drug Free School Grant	4,718

Excluding the District's Food Service fund, these funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. 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 results from adjustments for accrued liabilities, excluding the District's Food Service fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2% 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Cash on hand:* At fiscal year-end, the District had \$125 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

*Deposits:* At year-end, the carrying amount of the District's deposits was \$290,691 and the bank balance was \$348,588. These balances included \$24,778 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$124,778 was covered by federal deposit insurance or surety company bonds deposited with the District; and
2. \$223,810 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

	Category 3	Reported Amount	Fair Value
Money market	<u>\$ 6,651,032</u>	\$ 6,651,032	\$ 6,651,032
Investment in STAR Ohio		<u>51,805</u>	<u>51,805</u>
Total investments		<u>\$ 6,702,837</u>	<u>\$ 6,702,837</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 6,993,653	\$ -
Investments of the cash management pool:		
Money market	(6,651,032)	6,651,032
Investment in STAR Ohio	(51,805)	51,805
Cash on hand	<u>(125)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 290,691</u>	<u>\$ 6,702,837</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2004 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	\$295,708

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, 2004 are reported on the Statement of Net Assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	<u>\$ 137,948</u>

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.

**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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2004, on the value as of December 31, 2003. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 6 - PROPERTY TAXES - (Continued)**

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, 2004, are available to finance fiscal year 2004 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$530,503 in the general fund and \$92,955 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$446,655 in the general fund, and \$78,746 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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate	\$ 126,940,530	84.58	\$ 133,856,230	82.98
Commercial/industrial real estate	5,256,280	3.50	5,608,810	3.48
Public utility personal	10,339,610	6.89	14,754,030	9.16
Tangible personal property	<u>7,549,941</u>	<u>5.03</u>	<u>7,075,379</u>	<u>4.38</u>
Total assessed valuation	<u>\$ 150,086,361</u>	<u>100.00</u>	<u>\$ 161,294,449</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$52.43		\$56.83

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 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	\$ 5,210,700
Accounts	28,318
Intergovernmental	<u>320,061</u>
Total	<u>\$ 5,559,079</u>

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

**NOTE 8 - CAPITAL ASSETS**

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

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 363,000	\$ -	\$ -	\$ 363,000
<i>Capital assets, being depreciated:</i>				
Land improvements	670,428	-	-	670,428
Building and improvements	11,366,144	288,574	-	11,654,718
Furniture and equipment	954,346	17,350	-	971,696
Vehicles	<u>1,028,677</u>	<u>124,506</u>	<u>(40,510)</u>	<u>1,112,673</u>
Total capital assets, being depreciated	<u>14,019,595</u>	<u>430,430</u>	<u>(40,510)</u>	<u>14,409,515</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(182,850)	(32,015)	-	(214,865)
Building and improvements	(2,866,243)	(246,699)	-	(3,112,942)
Furniture and equipment	(443,245)	(41,198)	-	(484,443)
Vehicles	<u>(624,811)</u>	<u>(74,949)</u>	<u>36,458</u>	<u>(663,302)</u>
Total accumulated depreciation	<u>(4,117,149)</u>	<u>(394,861)</u>	<u>36,458</u>	<u>(4,475,552)</u>
Governmental activities capital assets, net	<u>\$ 10,265,446</u>	<u>\$ 35,569</u>	<u>\$ (4,052)</u>	<u>\$ 10,296,963</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 155,295
Special	39,672
Vocational	4,941
 <u>Support Services:</u>	
Pupil	8,258
Instructional staff	2,752
Administration	35,250
Operations and maintenance	17,651
Pupil transportation	78,621
Extracurricular activities	38,649
Food service operation	<u>13,772</u>
Total depreciation expense	<u>\$ 394,861</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

		(Revised)			Balance	Amounts
	Interest	Balance			Outstanding	Due in
	Rate	Outstanding	Additions	Reductions	06/30/04	One Year
	Rate	06/30/03			06/30/04	One Year
<b>Governmental Activities:</b>						
General obligation bonds	Various	\$ 5,334,995	\$ -	\$ (575,000)	\$ 4,759,995	\$ 605,000
Capital appreciation bonds	Various	995,660	202,552	-	1,198,212	-
Compensated absences		<u>567,835</u>	<u>47,479</u>	<u>(98,880)</u>	<u>516,434</u>	<u>79,525</u>
Total long-term obligations, governmental activities		<u>\$ 6,898,490</u>	<u>\$ 250,031</u>	<u>\$ (673,880)</u>	<u>\$ 6,474,641</u>	<u>\$ 684,525</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, 2004.

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 will be 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, 2004 was \$3,940,000. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

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, 2004 was \$195,000, and has total accreted interest of \$198,844 is reported separately. Principal paid on the current interest bonds during fiscal year 2004 was \$250,000.

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.

- 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, 2004 was \$474,995, total accreted interest of \$804,368 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 2004 on the current interest bonds was \$325,000.
- D. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 605,000	\$ 181,505	\$ 786,505	\$ -	\$ -	\$ -
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 - 2014	905,000	674,196	1,579,196	940,000	-	940,000
2015 - 2019	1,810,000	326,468	2,136,468	-	-	-
2020	<u>415,000</u>	<u>10,168</u>	<u>425,168</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$4,285,000</u>	<u>\$ 1,799,730</u>	<u>\$6,084,730</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 indebtness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$10,115,430 (including available funds of \$1,557,065) and an unvoted debt margin of \$161,295.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - 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 11 - 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 2004, 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 2003.

**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, 2004**

**NOTE 12 - 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$215,520, \$194,596, and \$173,510, respectively; 39.71% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$129,936 represents the unpaid contribution for fiscal year 2004.

**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, 2004

**NOTE 12 - 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 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 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 contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$775,887, \$708,458, and \$639,186, respectively; 81.69% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$142,032 represents the unpaid contribution for fiscal year 2004.

**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. As of June 30, 2004, certain members of the Board of Education have elected Social Security. 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, 2004**

**NOTE 13 - 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 \$55,420 during fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% 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 2004, the minimum pay has been established at \$14,500. 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. Expenses for health care at June 30, 2004 were \$204.931 million and the target level was \$307.4 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$101,997 during the 2004 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (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	\$ (3,440,476)
Net adjustment for revenue accruals	85,280
Net adjustment for expenditure accruals	(276,408)
Net adjustment for other sources/uses	207,277
Adjustment for encumbrances	<u>3,087,081</u>
 GAAP basis	 <u>\$ (337,246)</u>

**NOTE 15 - 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ (148,413)	\$ -	\$ 38,225
Current year set-aside requirement	220,867	220,867	-
Qualifying disbursements	<u>(407,849)</u>	<u>(455,884)</u>	<u>-</u>
Total	<u>\$ (335,395)</u>	<u>\$ (235,017)</u>	<u>\$ 38,225</u>
Balance carried forward to FY 2005	<u>\$ (335,395)</u>	<u>\$ -</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.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	<u>\$ 38,225</u>
Total restricted assets	<u>\$ 38,225</u>

## **SUPPLEMENTAL DATA**

**BLACK RIVER LOCAL SCHOOL DISTRICT**  
**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A), (B) Food Distribution	10.550	N/A	\$ -	\$ 52,277	\$ -	\$ 52,277
(A), (C) School Breakfast	10.553	048462-05PU-2003	3,432	-	3,432	-
(A), (C) School Breakfast	10.553	048462-05PU-2004	16,084	-	16,084	-
(A), (C) National School Lunch	10.555	048462-LLP4-2003	12,958	-	12,958	-
(A), (C) National School Lunch	10.555	048462-LLP4-2004	69,722	-	69,722	-
<b>Total U.S. Department of Agriculture and Nutrition Cluster</b>			<u>102,196</u>	<u>52,277</u>	<u>102,196</u>	<u>52,277</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
Title I - Grants to Local Educational Agencies	84.010	048462-C1S1-2004	436,998		460,992	
(E), (F) Special Education: Grants to States	84.027	048462-6BSF-2002-P	(940)		-	
(F) Special Education: Grants to States	84.027	048462-6BSF-2003-P	49,787		53,325	
(F) Special Education: Grants to States	84.027	048462-6BSF-2004	53,089		136,278	
<b>Total Special Education: Grants to States</b>			<u>101,936</u>		<u>189,603</u>	
(F) Special Education: Grants to States	84.173	048462-PPGS1-2003-P	3,094		3,094	
(F) Special Education: Grants to States	84.173	048462-PPGS1-2004	701		799	
<b>Total Special Education: Preschool Grants</b>			<u>3,795</u>		<u>3,893</u>	
<b>Total Special Education Cluster</b>			<u>105,731</u>		<u>193,496</u>	
Safe and Drug-Free Schools	84.186	048462-DRS1-2003	2,204		29	
Safe and Drug-Free Schools	84.186	048462-DRS1-2004	2,482		10,099	
<b>Total Safe and Drug-Free Schools</b>			<u>4,686</u>		<u>10,128</u>	
(E), (F) Eisenhower Professional Development	84.281	048462-MSS1-2002	(2,805)		165	
State Grants for Innovative Programs	84.298	048462-C2S1-2003	6,825		8,303	
State Grants for Innovative Programs	84.298	048462-C2S1-2004	1,575		420	
<b>Total State Grants for Innovative Programs</b>			<u>8,400</u>		<u>8,723</u>	
Technology Literacy Challenge Fund Grants	84.318	048462-TJS1-2003	10,499		12,477	
Technology Literacy Challenge Fund Grants	84.318	048462-TJS1-2004	1,794		26,455	
<b>Total Technology Literacy Grant Funds</b>			<u>12,293</u>		<u>38,932</u>	
Rural Education	84.358	048462-RUS1-2003	10,625		14,470	
Improving Teacher Quality	84.367	048462-TRS1-2003	63,114		40,381	
Improving Teacher Quality	84.367	048462-TRS1-2004	52,450		98,742	
<b>Total Improving Teacher Quality</b>			<u>115,564</u>		<u>139,123</u>	
<b>Total U.S. Department of Education</b>			<u>691,492</u>		<u>866,029</u>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:</b>						
Community Alternative Funding System Program	93.778	N/A	5,885		5,885	
<b>Total Federal Financial Assistance</b>			<u>\$ 799,573</u>	<u>\$ 52,277</u>	<u>\$ 974,110</u>	<u>\$ 52,277</u>

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

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 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 remaining aggregate fund information of the Black River Local School District, Medina County, (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 17, 2004. 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 December 17, 2004.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-BRLSD-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 17, 2004.

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

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

Trimble, Julian & Grube, Inc.  
December 17, 2004



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1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 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, 2004. 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, 2004.

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.



Trimble, Julian & Grube, Inc.  
December 17, 2004

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

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

**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)?	Yes
<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  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2004**

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

Finding Number	2004-BRLSD-001
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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.

It was noted during the audit that at June 30, 2004, the District had a negative cash balance in the Food Service Fund of \$46,337. This was attributed to the District recording monies expected to be received from its prior food service company that were partially written off and the remainder received in July 2004.

The District has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the District properly record receipts as deposits in transit only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board approval.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
FEBRUARY 10, 2005**