

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2004

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
North Baltimore Local School District
201 S. Main St.
Baltimore, OH 45872

We have reviewed the Independent Auditor's Report of the North Baltimore Local School District, Wood County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2003 through 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 North Baltimore Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 29, 2004

This Page is Intentionally Left Blank.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12 – 13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14 - 15
Statement of Assets and Liabilities – Fiduciary Funds	16
Notes to Basic Financial Statements	17 - 36
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis)	37
Notes to Required Supplementary Information	38
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>	39

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
North Baltimore Local School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Baltimore Local School District (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*; and GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 and budgetary comparison information on pages 3 through 9 and 37 through 38 are not a required part of the basic financial statements but are 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
November 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the North Baltimore Local School District for the year ended June 30, 2004. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2004 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$1,145,207. Of this amount, \$983,966 is unrestricted.
- ✓ In total, net assets increased by \$252,449.
- ✓ The School District had \$7,217,342 in expenses related to governmental activities; only \$736,634 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$6,733,157, made up primarily of property taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance decreased by \$2,401 from \$1,150,238 at June 30, 2003 to \$1,147,837 at June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may establish separate funds to show that it is meeting legal requirements for using grants or other money.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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.

Other information. In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2004:

		Governmental Activities
Current and other assets	\$	5,591,808
Capital assets		<u>2,503,266</u>
Total assets		<u>8,095,074</u>
Long-term debt outstanding		538,717
Other liabilities		<u>6,411,150</u>
Total liabilities		<u>6,949,867</u>
Net assets:		
Invested in capital assets, net of debt		(256,877)
Restricted:		
For capital purposes		120,198
Other purposes		297,920
Unrestricted		<u>983,966</u>
Total net assets	\$	<u><u>1,145,207</u></u>

Since this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets. Refer to the following section for discussion of the reasons for the change in net assets during the year.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

B. Governmental Activities during fiscal year 2004

The following table presents a condensed summary of the School District's activities during fiscal year 2004 and the resulting change in net assets:

	Governmental Activities
Revenues:	
Program revenues:	
Charges for services and sales	\$ 326,558
Operating grants and contributions	391,101
Capital grants and contributions	<u>18,975</u>
Total program revenues	<u>736,634</u>
General revenues:	
Property taxes	2,990,821
Grants and entitlements	3,458,055
Investment earnings	24,612
Miscellaneous	<u>259,669</u>
Total general revenues	<u>6,733,157</u>
Total revenues	<u><u>7,469,791</u></u>
Expenses:	
Instruction	3,483,599
Support services:	
Pupil	260,343
Instructional staff	946,081
Board of Education	46,846
Administration	526,085
Fiscal	229,101
Business	7,005
Operation and maintenance of plant	797,700
Pupil transportation	204,989
Central	2,295
Non-instructional services	360,355
Interest and fiscal charges	73,084
Food services	<u>279,859</u>
Total expenses	<u><u>7,217,342</u></u>
Change in net assets	<u><u>\$ 252,449</u></u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

Of the total governmental activities revenues of \$7,469,791, \$736,634 (10%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 44% (\$2,990,821) comes from property tax levies and 51% (\$3,458,055) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

As previously mentioned, because this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 10% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$3,483,599 but program revenue contributed to fund 12% of those costs. Thus, general revenues of \$3,050,021 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets increased by \$252,449 due primarily to fiscal 2004 being the first year for full collection on the two replacement levies that were passed in May 2003.

Governmental Activities

	<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$ 3,483,599	433,578	12%	3,050,021
Support services	3,020,445	20,831	1%	2,999,614
Non-instructional services	640,214	282,225	44%	357,989
Interest and fiscal charges	<u>73,084</u>	<u>-</u>	0%	<u>73,084</u>
Total	\$ <u>7,217,342</u>	<u>736,634</u>	<u>10%</u>	<u>6,480,708</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: the General Fund and Building Fund. Assets of these two funds comprise \$4,558,694 (82%) of the total \$5,591,808 governmental funds assets.

General Fund. Fund balance at June 30, 2004 was \$1,147,837, with an unreserved deficit fund balance of \$585,876. The fund balance decreased by \$2,401. The unreserved fund balance represents approximately 9% of current-year general fund expenditures.

Building Fund. This fund was used to account for the activity related to improvements of school buildings.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. Significant differences between the original and final budgets are as follows:

Budgeted revenue increased approximately \$266,000 due to increased tax collections and additional tuition.

On the expenditure side, total appropriations only increased by about \$72,000 which represents approximately 1% of the original budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2004, the School District had \$2,503,266 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 7 to the financial statements for more detail.

Capital Assets at Year-End
(Net of Depreciation)

		Governmental
		<u>Activities</u>
Land	\$	17,829
Buildings and improvements		2,210,970
Equipment and furniture		192,430
Vehicles		<u>82,037</u>
Total	\$	<u><u>2,503,266</u></u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

Debt

The School District paid the required scheduled principal payment of \$11,855 on its energy project notes during the fiscal year. The total energy project notes outstanding at year-end were \$11,855 which was due within one year. See Note 12 to the financial statements.

ECONOMIC FACTORS

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In order to continue stable funding, the School District has multiple tax levies which will require continued voter approval. First, an Emergency Tax Levy will need to be renewed in calendar year 2006, a 2 mill Permanent Improvement Tax Levy needs renewed in calendar year 2007, and an 8 mill Five Year Operating Tax Levy will need to be renewed in calendar year 2008.

In addition to renewing its existing tax levies, in calendar year 2006, the School District will most likely need to look at passing new millage for fiscal year 2007 based on current estimates.

The School District will need to open negotiations with both certified and classified personnel during fiscal year 2005 to have a new contract in place for July 1, 2005.

There are many changes happening in the area of school finance and the poor economic climate itself: the cost of the No Child Left Behind Act, the depleting inventory tax, the unconstitutional state foundation formula, open-enrollment polices, community and charter schools options and the possible developments in growth to the town of North Baltimore to mention a few.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the North Baltimore Local School District, 201 S. Main Street, North Baltimore, Ohio 45872.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,207,006
Receivables:	
Taxes	3,217,409
Accounts	4,176
Intergovernmental	47,888
Supplies inventory	9,942
Restricted cash and investments	105,387
Nondepreciable capital assets	17,829
Depreciable capital assets, net	<u>2,485,437</u>
Total assets	<u>8,095,074</u>
Liabilities:	
Accounts payable	79,101
Accrued wages and benefits	640,067
Intergovernmental payable	135,439
Deferred revenue	2,856,327
Accrued interest payable	25,216
Notes payable	2,675,000
Noncurrent liabilities:	
Due within one year	128,533
Due within more than one year	<u>410,184</u>
Total liabilities	<u>6,949,867</u>
Net Assets:	
Invested in capital assets, net of related debt	(256,877)
Restricted for:	
Capital projects	120,198
Other purposes	297,920
Unrestricted	<u>983,966</u>
Total net assets	<u>\$ 1,145,207</u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Activities
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
Governmental Activities:					
Instruction:					
Regular	\$ 2,545,049	116,781	17,889	18,975	(2,391,404)
Special education	592,278	-	279,933	-	(312,345)
Other	346,272	-	-	-	(346,272)
Support services:					
Pupil	260,343	-	3,906	-	(256,437)
Instructional staff	946,081	-	9,000	-	(937,081)
Board of Education	46,846	-	-	-	(46,846)
Administration	526,085	-	7,925	-	(518,160)
Fiscal	229,101	-	-	-	(229,101)
Business	7,005	-	-	-	(7,005)
Operation and maintenance of plant	797,700	-	-	-	(797,700)
Pupil transportation	204,989	-	-	-	(204,989)
Central	2,295	-	-	-	(2,295)
Non-instructional services:					
Extracurricular activities	360,355	59,258	-	-	(301,097)
Food service	279,859	150,519	72,448	-	(56,892)
Interest on long-term debt	73,084	-	-	-	(73,084)
Total Governmental Activities	<u>7,217,342</u>	<u>326,558</u>	<u>391,101</u>	<u>18,975</u>	<u>(6,480,708)</u>
General Revenues:					
Property taxes, levied for general purposes					2,579,788
Property taxes, levied for debt services					289,095
Property taxes, levied for capital projects					121,938
Grants and entitlements not restricted to specific programs					3,458,055
Investment earnings					24,612
Miscellaneous					<u>259,669</u>
Total general revenues					<u>6,733,157</u>
Change in net assets					252,449
Net assets beginning of year					<u>892,758</u>
Net assets end of year					<u>1,145,207</u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2004

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 1,608,549	-	598,457	2,207,006
Restricted cash	105,387	-	-	105,387
Receivables:				
Taxes	2,841,177	-	376,232	3,217,409
Accounts	3,581	-	595	4,176
Intergovernmental	-	-	47,888	47,888
Materials and supplies inventory	-	-	9,942	9,942
Total assets	4,558,694	-	1,033,114	5,591,808
Liabilities:				
Accounts payable	38,335	-	40,766	79,101
Accrued wages and benefits	591,798	-	48,269	640,067
Intergovernmental payable	84,394	-	11,253	95,647
Accrued interest payable	-	25,216	-	25,216
Compensated absences payable	81,153	-	4,569	85,722
Deferred revenue	2,615,177	-	386,980	3,002,157
Notes payable	-	2,675,000	-	2,675,000
Total liabilities	3,410,857	2,700,216	491,837	6,602,910
Fund Balances:				
Reserved for:				
Encumbrances	230,574	-	81,464	312,038
Budget stabilization	105,387	-	-	105,387
Property taxes	226,000	-	30,000	256,000
Unreserved, reported in:				
General Fund	585,876	-	-	585,876
Special Revenue Funds	-	-	347,902	347,902
Capital Projects Funds	-	(2,700,216)	81,911	(2,618,305)
Total fund balances	1,147,837	(2,700,216)	541,277	(1,011,102)
Total liabilities and fund balances	\$ 4,558,694	-	1,033,114	5,591,808

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances \$ (1,011,102)

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 2,503,266

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds. 145,830

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Energy notes payable	11,855	
Compensated absences	367,852	
Capital lease payable	73,288	
Pension obligation payable	<u>39,792</u>	
Total		<u>(492,787)</u>

Net Assets of Governmental Activities \$ 1,145,207

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,522,313	-	407,405	2,929,718
Tuition and fees	116,781	-	-	116,781
Interest	24,612	-	-	24,612
Charges for services	-	-	150,519	150,519
Intergovernmental	3,458,055	-	369,328	3,827,383
Other local revenues	16,447	-	302,480	318,927
Total revenues	<u>6,138,208</u>	<u>-</u>	<u>1,229,732</u>	<u>7,367,940</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,432,839	-	83,332	2,516,171
Special education	276,193	-	307,333	583,526
Other instruction	341,697	-	3,990	345,687
Support services:				
Pupil	253,907	-	3,906	257,813
Instructional staff	933,181	-	5,624	938,805
Board of Education	46,846	-	-	46,846
Administration	508,306	-	9,547	517,853
Fiscal	220,119	-	7,680	227,799
Operation and maintenance of plant	617,432	24,053	1,919	643,404
Pupil transportation	285,858	-	-	285,858
Central	-	-	2,295	2,295
Non-instructional services:				
Extracurricular activities	229,456	-	130,660	360,116
Food service	-	-	270,256	270,256
Capital outlay	11,303	-	126,817	138,120
Debt Service:				
Principal	28,583	-	11,854	40,437
Interest and fiscal charges	7,117	64,435	1,532	73,084
Total expenditures	<u>6,192,837</u>	<u>88,488</u>	<u>966,745</u>	<u>7,248,070</u>
Excess of revenues over (under) expenditures	<u>(54,629)</u>	<u>(88,488)</u>	<u>262,987</u>	<u>119,870</u>
Other financing sources (uses):				
Transfers in	96,793	199,219	44,565	340,577
Transfers out	(44,565)	-	(296,012)	(340,577)
Total other financing sources (uses):	<u>52,228</u>	<u>199,219</u>	<u>(251,447)</u>	<u>-</u>
Net change in fund balance	(2,401)	110,731	11,540	119,870
Fund balance, beginning of year	1,150,238	(2,810,947)	529,737	(1,130,972)
Fund balance, end of year	\$ <u>1,147,837</u>	<u>(2,700,216)</u>	<u>541,277</u>	<u>(1,011,102)</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	119,870
<p>Amounts reported for governmental activities in the statement of activities are different because</p>		
<p>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.</p>		
Capital outlay		121,805
Depreciation expense		(131,685)
Repayment of notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		11,854
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		28,583
Some expenses reported in the statement of activities, such as compensated absences and pension obligation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		171
Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.		<u>101,851</u>
Change in Net Assets of Governmental Activities	\$	<u><u>252,449</u></u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2004

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>17,282</u>
Total assets	<u><u>17,282</u></u>
LIABILITIES	
Due to student groups	<u>17,282</u>
Total liabilities	\$ <u><u>17,282</u></u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Baltimore Local School District, Ohio (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 in its government-wide financial statements provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Reporting Entity

North Baltimore Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services to approximately 750 students and community members as authorized by state statute and/or federal guidelines.

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with three organizations, one of which is defined as a jointly governed organization and two are insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Wood County Schools Health Insurance Consortium. These organizations are presented in Notes 14 and 15 to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements Fund financial statements report detailed information about the School 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

Building Fund - This fund was used to make building improvements and issued bond anticipation notes to finance the project. The fund has used the proceeds of the notes but still has a liability for the bond anticipation notes outstanding. The School District renewed the note for a one-year period during the fiscal year.

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds and agency funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

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 except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2004, which are intended to finance fiscal year 2005 operations, have been 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.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, 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. By no later than January 20, the Board-adopted budget is filed with the Wood County Budget Commission for rate determination.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures that appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool and individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. Following Ohio statutes, the Board of Education has by resolution, specified the funds to receive an allocation of interest earnings. During fiscal year 2004, investments were limited to STAROhio and certificates of deposit. Investments are reported at their fair value, which is based on quoted market prices and changes in the fair value are reported in the operating statement. At June 30, 2004, the fair value of investments approximates cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$3,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School 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 capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	40 years
Land improvements	15 years
Building improvements	10-40 years
Equipment and furniture	5-10 years
Vehicles	10 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. The liability is an estimate based on the School District's past experience of making termination payments. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property tax advances, and budget stabilization set-asides. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

2. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School District implemented the following:

- GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments.*
- GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus.*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*
- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

The beginning net asset amount for governmental programs reflects the change in fund balance at June 30, 2003 caused by the conversion to the accrual basis of accounting.

Fund balance - all governmental funds - June 30, 2003	\$ (1,160,694)
Reclassification of enterprise funds as special revenue funds	29,722
Restated fund balance - all governmental funds - June 30, 2003	<u>(1,130,972)</u>
GASB 34 adjustments:	
Capital assets	2,513,146
Long-term liabilities	(533,395)
Revenue recognition	<u>43,979</u>
Governmental activities net assets - June 30, 2003	<u>\$ 892,758</u>

3. DEFICIT FUND BALANCES

At June 30, 2004, the building fund has a deficit fund balance of \$2,700,216 which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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 that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Deposits: At year-end, the carrying amount of the District's deposits was \$1,516,999 and the bank balance was \$1,736,234. Of the bank balance, \$177,174 was covered by federal depository insurance and \$1,559,060 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department, but not in the District's name, and 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 Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the counter party'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 counter party, or by its trust department or agent but not in the District's name. The District's investment in STAROhio of \$812,676 is unclassified because it is not evidenced by securities that exist in physical or book entry form.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 1998. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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. Tangible personal property taxes paid 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.

The School District receives property taxes from Wood and Hancock Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$226,000 in the General Fund, \$20,000 in the Debt Service Fund, and \$10,000 in the Capital Projects Fund. The assessed values upon which fiscal year 2004 taxes were collected are:

	<u>2003 Second- Half Collections</u>		<u>2004 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 51,166,340	70.14%	52,087,280	70.53%
Public Utility	6,269,110	8.59%	6,088,830	8.24%
Tangible Personal Property	<u>15,518,606</u>	21.27%	<u>15,676,524</u>	21.23%
Total Assessed Value	\$ <u>72,954,056</u>	100.00%	<u>73,852,634</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$55.70		\$54.66

6. RISK MANAGEMENT

The School District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. There was no decline in the level of coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

The School District also participates in the Wood County Benefit Plan Association Employee Insurance Benefits Program, a group insurance purchasing pool (Note 15), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries. The Plan provides insurance policies in whole or in part through one or more group insurance policies.

7. CAPITAL ASSETS

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

	Balance 7/1/03	Additions	Disposals	Balance 6/30/04
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 17,829	-	-	17,829
Depreciable:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	3,631,259	-	-	3,631,259
Vehicles	478,172	6,925	-	485,097
Equipment and furniture	248,857	114,880	-	363,737
Subtotal	<u>4,550,046</u>	<u>121,805</u>	<u>-</u>	<u>4,671,851</u>
Totals at historical cost	<u>4,567,875</u>	<u>121,805</u>	<u>-</u>	<u>4,689,680</u>
Less accumulated depreciation:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	1,339,096	81,193	-	1,420,289
Vehicles	369,047	34,013	-	403,060
Equipment and furniture	154,828	16,479	-	171,307
Total accumulated depreciation	<u>2,054,729</u>	<u>131,685</u>	<u>-</u>	<u>2,186,414</u>
Capital assets, net	<u>\$ 2,513,146</u>	<u>(9,880)</u>	<u>-</u>	<u>2,503,266</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Depreciation expense was charged to functions as follows:

Instruction:		
Regular	\$	33,677
Special		8,752
Other instruction		585
Support services:		
Pupil		2,530
Instructional staff		7,276
School administration		8,232
Fiscal		1,302
Business		7,005
Operation and maintenance of plant		11,548
Pupil transportation		34,011
Extracurricular activities		7,164
Food service		9,603
		<hr/>
Total depreciation expense	\$	<u>131,685</u>

8. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School 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 to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$124,000, \$115,000, and \$108,000, respectively; 41% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is recorded as a liability.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

State Teachers Retirement System

The School 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

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 9.3% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002, were approximately \$379,000, \$360,000 and \$339,000 respectively; 84% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is recorded as a liability.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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 SERS/STRS. The Board's liability is 6.2% of wages paid.

9. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute and are funded on a pay-as-you-go basis.

STRS 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 the year ended June 30, 2004, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled approximately \$27,000 during fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$2.8 billion at June 30, 2003. For the year ended June 30, 2003, net health care costs paid by STRS were \$352.3 million and STRS had 108,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% 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 rate 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 for the year ended June 30, 2003 were \$204.9 million and the target level was \$307.4 million. At June 30, 2003, SERS' net assets available for payment of health care benefits were \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, equaled approximately \$52,000 during the 2004 fiscal year.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

10. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month and sick leave may be accumulated without limit. Upon retirement, payment is made for one-third of accrued, but unused sick leave to a maximum of 30 days; however, the maximum is increased to 60 days for employees to elect to retire within 12 months of the first eligible retirement date.

11. SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended June 30, 2004 follows:

	Principal Outstanding 7/1/03	Additions	Deletions	Principal Outstanding 6/30/04
Bond anticipation notes	\$ <u>2,835,000</u>	<u>2,675,000</u>	<u>(2,835,000)</u>	<u>2,675,000</u>

Bond Anticipation Notes - On April 9, 2002, the School District issued \$2,835,000 of bond anticipation notes for school improvements bearing interest at 2.00%. These notes matured on December 18, 2003 and were paid in full. On December 18, 2003, the School District issued \$2,675,000 of bond anticipation notes for school improvements bearing interest at 1.75%. These notes mature on December 16, 2004.

12. LONG-TERM OBLIGATIONS

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

	Principal Outstanding 7/1/03	Additions	Reductions	Principal Outstanding 6/30/04	Amounts Due in One Year
<i>Governmental Activities:</i>					
Energy project notes	\$ 23,709	-	(11,854)	11,855	11,855
Capital leases	101,871	-	(28,583)	73,288	30,956
Compensated absences	372,651	84,827	(3,904)	453,574	85,722
Total	\$ <u>498,231</u>	<u>84,827</u>	<u>(44,341)</u>	<u>538,717</u>	<u>128,533</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Energy Project Notes - These notes were issued in March 1995 for energy-saving projects. The notes bear interest at 6.5% and mature in March 2005. Principal and interest requirements to retire the Energy Project Notes at June 30, 2004 are \$11,855 and \$771, respectively.

Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$6,646,737 with an unvoted debt margin of \$73,853 at June 30, 2004.

13. CAPITALIZED LEASES

The School District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$146,722 at June 30, 2004. The following is a schedule of future minimum lease payments under capital leases and the net present value of the minimum lease payments as of June 30, 2004.

Year Ending <u>June 30</u>		
2005	\$	35,700
2006		35,700
2007		<u>8,925</u>
Minimum lease payments		80,325
Less: Amount representing interest		<u>7,037</u>
Present value of minimum lease payments	\$	<u><u>73,288</u></u>

14. JOINTLY GOVERNED ORGANIZATIONS

The Northwest Ohio Area Computer Services Cooperative (NOACSC)

NOACSC is a jointly governed organization among forty-nine educational entities, primarily school districts located in the Ohio counties of Paulding, Van Wert, Mercer, Putnam, Allen, Hancock, Auglaize, Hardin and Wood. The general membership of the NOACSC consists of a representative from each member school and a representative from the fiscal agent. NOACSC is governed by a Governing Assembly of twelve elected members, two from each of the original six counties of Paulding, Van Wert, Mercer, Putnam, Allen and Hancock. NOACSC was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The duties and obligations of the organization and members participating is set forth in a written agreement covering the program. Each of the participating educational entities support NOACSC based upon a per pupil charge dependent upon the software package(s) utilized. The degree of control exercised by any participant is limited to representation on the Governing Assembly but there is no ongoing financial interest or responsibility by the participating governments. Financial information for NOACSC can be obtained from their administrative offices at 645 South Main Street, Lima, Ohio 45804.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

15. INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Wood County Schools Health Insurance Consortium

The Wood County Schools Health Insurance Consortium (the Consortium) is a public entity shared risk pool consisting of six local school districts, three city or exempted village school districts, one vocational school district, and an educational service center. The Consortium is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee, which advises the Trustee, Huntington Bank, concerning aspects of the Consortium.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Consortium is by written application subject to acceptance by the Administrative Committee and payment of monthly premiums. Financial information may be obtained from Coresource, PO Box 6118, Westerville, Ohio 43086-6118.

16. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Litigation

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

17. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Although no longer required by state statute, a budget stabilization reserve may still be set-aside at the discretion of the School District. The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

		<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2003	\$	(143,653)	-	105,387
Current year set-aside requirement		105,043	105,043	-
Less qualifying disbursements		<u>(176,893)</u>	<u>(157,101)</u>	<u>-</u>
Total		<u>(215,503)</u>	<u>(52,058)</u>	<u>105,387</u>
Balance carried to FY2005		<u>(215,503)</u>	<u>-</u>	<u>105,387</u>
Cash balance as of June 30, 2004	\$	<u>-</u>	<u>-</u>	<u>105,387</u>

Since the School District had qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, this extra amount may be used to reduce the set aside requirement of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirement for future years.

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

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)
 General Fund
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 2,175,000	2,397,313	2,397,313	-
Tuition and fees	75,000	127,229	127,229	-
Interest	19,500	24,612	24,612	-
Intergovernmental	3,471,900	3,458,054	3,458,054	-
Other local revenues	500	879	879	-
Total revenues	<u>5,741,900</u>	<u>6,008,087</u>	<u>6,008,087</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,306,685	2,397,489	2,397,489	-
Special education	273,191	279,402	279,402	-
Other instruction	261,804	345,587	345,587	-
Support services:				
Pupil	240,152	252,190	252,190	-
Instructional staff	966,081	944,156	944,156	-
Board of Education	59,005	44,400	44,400	-
Administration	652,533	518,032	518,032	-
Fiscal	245,083	239,079	239,079	-
Operation and maintenance of plant	796,275	792,376	792,376	-
Pupil transportation	266,993	295,010	295,010	-
Non-instructional services:				
Extracurricular activities	125,974	146,804	146,804	-
Capital outlay	-	11,303	11,303	-
Total expenditures	<u>6,193,776</u>	<u>6,265,828</u>	<u>6,265,828</u>	<u>-</u>
Excess of revenues over expenditures	(451,876)	(257,741)	(257,741)	-
Other financing sources (uses):				
Transfers in	-	96,793	96,793	-
Transfers out	(47,137)	(44,565)	(44,565)	-
Other sources	-	1,538	1,538	-
Total other financing sources (uses):	<u>(47,137)</u>	<u>53,766</u>	<u>53,766</u>	<u>-</u>
Net change in fund balance	(499,013)	(203,975)	(203,975)	-
Fund balance, beginning of year	1,405,342	1,405,342	1,405,342	
Prior year encumbrances appropriated	254,050	254,050	254,050	
Fund balance, end of year	<u>\$ 1,160,379</u>	<u>1,455,417</u>	<u>1,455,417</u>	

See accompanying notes to required supplemental information.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2004

Note A Budgetary Basis of Accounting

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

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

Net change in fund balance - GAAP Basis	\$	<u>General</u> (2,401)
Increase / (decrease):		
Due to revenues		(130,121)
Due to expenditures		587,811
Due to other sources (uses)		1,538
Due to encumbrances		<u>(660,802)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$	<u>(203,975)</u>

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**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***

To the Board of Education
North Baltimore Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Baltimore Local School District as of and for the year ended June 30, 2004, which collectively comprise North Baltimore Local School District's basic financial statements and have issued our report thereon dated November 4, 2004, wherein we noted that the School District implemented Governmental Accounting Standards Board Statements 34, 37, 38 and 39 as well as Governmental Accounting Standards Board Interpretation 6. 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 North Baltimore Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 operations that we consider to be material weaknesses.

Compliance And Other Matters

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

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
November 4, 2004



**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

**NORTH BALTIMORE LOCAL SCHOOL DISTRICT
WOOD 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
JANUARY 11, 2005**