



**Auditor of State  
Betty Montgomery**



**North Bass Local School District**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

North Bass Local School District  
Ottawa County  
515 Kenny Road, P.O. Box 8  
Isle Saint George, Ohio 43436-9999

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Bass Local School District, Ottawa County, Ohio (the District), as of and for the 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 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 North Bass Local School District, Ottawa County, Ohio, as of June 30, 2004, the respective changes in financial position, thereof and the respective budgetary comparisons for the General and Rural Education Achievement funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal

control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 9, 2005

## **North Bass Local School District**

### **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004**

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The discussion and analysis of North Bass Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

#### **Highlights**

Key highlights for fiscal year 2004 are as follows:

- There was basically no change in net assets from the prior fiscal year.
- The School District has the following unique characteristics due to its geographic nature:
  - The School District's geographic boundary is the Isle St. George, a 670 acre island in Lake Erie;
  - The School District is the smallest operating school district in the United States;
  - The School District is Ohio's only operating one-room schoolhouse;
  - The School District is Ohio's only operating K-8 school district;
  - High school students are transported daily via airplane to Put-in-Bay or Danbury Local School Districts;
  - High school students are provided education on a tuition contract basis to their receiving school district;
  - The School District has one full-time employee, the teacher;
  - The School District has a part-time resident clerk/treasurer;
  - The School District superintendent is a part-time employee of the Erie-Huron-Ottawa Educational Services Center;
  - The majority of the Isle St. George, or 90 percent of the School District, has been purchased by the State of Ohio and is tax-exempt property.
- All students will be attending the Put-in-Bay Local School District for the 2005/2006 school year.

#### **Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand North Bass Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 School District's most significant funds with all other nonmajor funds presented in total in a single column. For North Bass Local School District, the General Fund and the Rural Education Achievement Program Fund are the most significant funds.

#### **Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to

## North Bass Local School District

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)

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that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's geographic location, property tax base, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here and include instruction and support services.

#### **Reporting the School District's Most Significant Funds**

Fund financial statements provide detailed information about the School District's major funds. While the School District uses a number of funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Rural Education Achievement Program Fund.

All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

#### **The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1  
Net Assets

	Governmental Activities	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$127,513	122,332
Capital Assets, Net	17,934	18,744
Total Assets	<u>145,447</u>	<u>141,076</u>
<u>Liabilities:</u>		
Current and Other Liabilities	33,786	29,582
Long-Term Liabilities	1,060	909
Total Liabilities	<u>34,846</u>	<u>30,491</u>



## North Bass Local School District

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)

<u>Net Assets:</u>		
Invested in Capital Assets	17,934	18,744
Restricted	27,660	32,822
Unrestricted	65,007	59,019
Total Net Assets	<u>\$110,601</u>	<u>\$110,585</u>

Total assets and liabilities increased \$4,371 and \$4,355, respectively. These changes represent increases in property taxes receivable and deferred revenue and an increase in cash.

Table 2 reflects the changes in net assets from the prior fiscal year.

Table 2  
Change in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues</u>		
Program Revenues		
Operating Grants and Contributions	\$26,594	\$33,590
General Revenues		
Property Taxes	15,149	16,949
Grants and Entitlements	177,110	136,034
Interest	292	489
Miscellaneous	598	1,096
Total General Revenues	193,149	154,568
Total Revenues	219,743	188,158
<u>Expenses</u>		
Instruction:		
Regular	\$119,939	\$99,462
Special	121	160
Support Services:		
Pupils	1,109	984
Instructional Staff	288	291
Board of Education	5,682	6,122
Fiscal	29,209	21,797
Operation and Maintenance of Plant	28,323	26,472
Pupil Transportation	35,056	15,892
Total Expenses	219,727	171,180
Increase in Net Assets	\$16	\$16,978

General revenues are 88 percent of the School District's total revenues, and of the total revenues, 81 percent is made up of unrestricted grants and entitlements. It is obvious that the School District's operations are substantially funded through unrestricted state and federal resources. For fiscal year 2004, these resources increased a little over \$41,000 due to increased State funding for island schools.

Instruction expenses make up 55 percent of total expenses. Regular instruction expenses increased from the prior fiscal year due to additional tuition payments to Put-in-Bay Local School District for high school student tuition. Pupil transportation expenses were also up, by 121 percent, due to an additional student requiring air transportation.

## North Bass Local School District

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)

#### Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the grants and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction:				
Regular	\$119,939	\$99,462	\$109,111	\$85,711
Special	121	160	121	82
Support Services:				
Pupils	1,109	984	(14,657)	(18,777)
Instructional Staff	288	291	288	291
Board of Education	5,682	6,122	5,682	6,122
Fiscal	29,209	21,797	29,209	21,797
Operation and Maintenance of Plant	28,323	26,472	28,323	26,472
Pupil Transportation	35,056	15,892	35,056	15,892
Total Expenses	<u>\$219,727</u>	<u>\$171,180</u>	<u>\$193,133</u>	<u>\$137,590</u>

The degree of support provided through general revenues was even greater in fiscal year 2004 than in the prior fiscal year. Over 88 percent of the School District's activities were provided for through general revenues.

#### **The School District's Funds**

The General Fund's balance increased by \$5,678, or 9 percent. Intergovernmental revenues increased by \$40,816, which offset significant increases in regular instruction and pupil transportation expenditures.

#### **General Fund Budgeting Highlights**

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

During the fiscal year, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$201,337, were below original budgeted revenues, in the amount of \$232,329. Actual revenues in the amount of \$198,475 were \$2,862 below final budgeted revenues.

Final expenditures were budgeted at \$237,739 while actual expenditures were \$193,592. The School District had planned to renovate the school building; however, these renovations were curtailed due to the uncertain future of the School District.

## **North Bass Local School District**

### **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)**

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#### **Capital Assets and Debt Administration**

At the end of fiscal year 2004, the School District had \$17,934 invested in capital assets (net of accumulated depreciation). The decrease from the prior fiscal year was primarily due to depreciation. There were minor additions and disposals to capital assets during fiscal year 2004. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

The School District does not have any debt. The School District's only long-term liability is for compensated absences. Refer to Note 14 to the basic financial statements for further information on long-term obligations.

#### **Current Issues**

The North Bass Local School District will be undergoing a significant challenge in fiscal year 2005 as 90 percent of the real estate on Isle St. George has been purchased by the State of Ohio through the Ohio Department of Natural Resources and the Conservation Fund. All students will be attending the Put-in-Bay Local School District for the 2005/2006 school year.

The challenges of running an island school district are further mounted in an era of high stakes testing and assurances. Fiscal integrity of the School District's resources is assured through operation within the scope of the Ohio Revised Code and the Ohio Administrative Code.

#### **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 School District's finances and to reflect the School 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 Paul Stonerook, Treasurer, North Bass Local School District, P.O. Box 8, Isle St. George, Ohio 43436.

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**North Bass Local School District**

Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$85,372
Intergovernmental Receivable	22,343
Prepaid Items	2,298
Property Taxes Receivable	17,500
Nondepreciable Capital Assets	6,514
Depreciable Capital Assets, Net	11,420
Total Assets	<u>145,447</u>
<u>Liabilities:</u>	
Accounts Payable	1,183
Accrued Wages and Benefits Payable	10,188
Intergovernmental Payable	5,076
Deferred Revenue	17,339
Long-Term Liabilities:	
Due in More Than One Year	1,060
Total Liabilities	<u>34,846</u>
<u>Net Assets:</u>	
Invested in Capital Assets	17,934
Restricted For:	
Other Purposes	27,660
Unrestricted	65,007
Total Net Assets	<u>\$110,601</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

Statement of Activities  
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets Governmental Activities
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$119,939	\$10,828	(\$109,111)
Special	121	0	(121)
Support Services:			
Pupils	1,109	15,766	14,657
Instructional Staff	288	0	(288)
Board of Education	5,682	0	(5,682)
Fiscal	29,209	0	(29,209)
Operation and Maintenance of Plant	28,323	0	(28,323)
Pupil Transportation	35,056	0	(35,056)
Total Governmental Activities	<u>\$219,727</u>	<u>\$26,594</u>	<u>(193,133)</u>
<u>General Revenues:</u>			
Property Taxes Levied for General Purposes			15,149
Grants and Entitlements not Restricted to Specific Programs			177,110
Interest			292
Miscellaneous			598
Total General Revenues			<u>193,149</u>
Change in Net Assets			16
Net Assets at Beginning of Year			<u>110,585</u>
Net Assets at End of Year			<u>\$110,601</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

Balance Sheet  
Governmental Funds  
June 30, 2004

	General	Rural Education Achievement Program	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$79,188	\$0	\$6,184	\$85,372
Intergovernmental Receivable	0	22,343	0	22,343
Prepaid Items	2,185	0	113	2,298
Property Taxes Receivable	17,500	0	0	17,500
Total Assets	<u>\$98,873</u>	<u>\$22,343</u>	<u>\$6,297</u>	<u>\$127,513</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$415	\$0	\$768	\$1,183
Accrued Wages and Benefits Payable	10,188	0	0	10,188
Intergovernmental Payable	3,838	0	0	3,838
Deferred Revenue	17,339	22,343	0	39,682
Total Liabilities	<u>31,780</u>	<u>22,343</u>	<u>768</u>	<u>54,891</u>
<u>Fund Balances:</u>				
Reserved for Property Taxes	161	0	0	161
Unreserved, Reported in:				
General Fund	66,932	0	0	66,932
Special Revenue Funds	0	0	5,529	5,529
Total Fund Balances	<u>67,093</u>	<u>0</u>	<u>5,529</u>	<u>72,622</u>
Total Liabilities and Fund Balances	<u>\$98,873</u>	<u>\$22,343</u>	<u>\$6,297</u>	<u>\$127,513</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

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

<b>Total Governmental Fund Balances</b>	\$72,622
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,934
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Intergovernmental Receivable	22,343
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.	(1,238)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds: Compensated Absences Payable	<u>(1,060)</u>
Net Assets of Governmental Activities	<u><u>\$110,601</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**North Bass Local School District**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	General	Rural Education Achievement Program	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$15,149	\$0	\$0	\$15,149
Intergovernmental	181,883	5,700	9,554	197,137
Interest	292	0	0	292
Miscellaneous	598	0	0	598
Total Revenues	<u>197,922</u>	<u>5,700</u>	<u>9,554</u>	<u>213,176</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	114,215	162	5,525	119,902
Special	121	0	0	121
Support Services:				
Pupils	186	640	283	1,109
Instructional Staff	0	0	288	288
Board of Education	4,266	0	1,416	5,682
Fiscal	19,556	0	8,697	28,253
Operation and Maintenance of Plant	23,762	0	4,774	28,536
Pupil Transportation	30,158	4,898	0	35,056
Total Expenditures	<u>192,264</u>	<u>5,700</u>	<u>20,983</u>	<u>218,947</u>
Changes in Fund Balances	5,658	0	(11,429)	(5,771)
Fund Balances at Beginning of Year	<u>61,435</u>	<u>0</u>	<u>16,958</u>	<u>78,393</u>
Fund Balances at End of Year	<u><u>\$67,093</u></u>	<u><u>\$0</u></u>	<u><u>\$5,529</u></u>	<u><u>\$72,622</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

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

**Changes in Fund Balances - Total Governmental Funds** (\$5,771)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on 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 depreciation exceeds capital outlay in the current year:

Capital Outlay - Depreciable Capital Assets	1,070	
Depreciation	<u>(1,880)</u>	(810)

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

Intergovernmental		6,567
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Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	181	
Compensated Absences Payable	<u>(151)</u>	<u>30</u>

Change in Net Assets of Governmental Activities \$16

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual Comparison  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$14,020	\$15,702	\$15,702	\$0
Intergovernmental	205,000	180,066	181,883	1,817
Interest	0	0	292	292
Miscellaneous	13,309	5,569	598	(4,971)
Total Revenues	<u>232,329</u>	<u>201,337</u>	<u>198,475</u>	<u>(2,862)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	127,189	127,189	114,830	12,359
Special	0	0	121	(121)
Support Services:				
Pupils	1,300	1,300	186	1,114
Instructional Staff	1,000	1,000	0	1,000
Board of Education	15,700	15,700	4,295	11,405
Administration	500	500	0	500
Fiscal	21,550	21,550	19,924	1,626
Operation and Maintenance of Plant	37,500	37,500	23,756	13,744
Pupil Transportation	33,000	33,000	30,480	2,520
Total Expenditures	<u>237,739</u>	<u>237,739</u>	<u>193,592</u>	<u>44,147</u>
Change in Fund Balance	(5,410)	(36,402)	4,883	41,285
Fund Balance at Beginning of Year	<u>74,305</u>	<u>74,305</u>	<u>74,305</u>	<u>0</u>
Fund Balance at End of Year	<u>\$68,895</u>	<u>\$37,903</u>	<u>\$79,188</u>	<u>\$41,285</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**North Bass Local School District**

Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Budget (Non-GAAP Basis) and Actual Comparison  
 Rural Education Achievement Program Fund  
 For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$5,700	\$5,700	\$5,700	\$0
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	1,786	2,200	162	2,038
Support Services:				
Pupils	8,607	8,400	640	7,760
Pupil Transportation	8,607	8,400	4,898	3,502
Total Expenditures	19,000	19,000	5,700	13,300
Change in Fund Balance	(13,300)	(13,300)	0	13,300
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance (Deficit) at End of Year	(\$13,300)	(\$13,300)	\$0	\$13,300

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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#### **Note 1 - Description of the School District and Reporting Entity**

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

The School District was established in 1855. The School District serves an area of approximately one square mile and is located in Ottawa County. The School District is the 612th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by two classified employees, one certified teacher, and one administrative employee who provide services to five students and other community members. The School District currently operates one instructional building.

#### Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For North Bass Local School District, this includes general operations of the School District.

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

The School District participates in two jointly governed organizations, the Northern Ohio Educational Computer Association and the Northwest Ohio Special Education Regional Resource Center. These organizations are presented in Note 16 to the basic financial statements.

#### **Note 2 - Summary of Significant Accounting Policies**

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

#### **A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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#### 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.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program 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

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

#### **B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All of the funds of the School District are governmental funds.

#### Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District's two major funds are the General Fund and the Rural Education Achievement Program special revenue fund.

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.

Rural Education Achievement Program Fund - The Rural Education Achievement Program Fund is used to account for Federal monies to supplement the various title programs of small rural school districts.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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#### **C. Measurement Focus**

##### Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

##### Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

#### **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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

##### Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 the 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 both measurable and available at fiscal year end: property taxes available as an advance and grants.

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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#### Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are 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 are reported as deferred revenue.

#### Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### **E. Budgetary Process**

All funds are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within each fund are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

#### **F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, investments were limited to STAR Ohio. 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



## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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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.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$292, which includes \$69 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

#### **G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

#### **H. Capital Assets**

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All 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>Useful Lives</u>
Land Improvements	20 years
Buildings and Building Improvements	75 years
Furniture, Fixtures, and Equipment	5 years

#### **I. Compensated Absences**

The School District does not record a liability for accrued vacation benefits. None of the employees accrue vacation time.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end,

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after five years of service.

#### **J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on 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, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

#### **K. 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 balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### **L. Fund Balance Reserves**

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. A fund balance reserve has been established for property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

#### **M. 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 management and are either unusual in nature or infrequent in occurrence. The District did not have these in items in fiscal year 2004.

#### **N. Estimates**

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

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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#### **Note 3 - Change in Accounting Principle**

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

#### **Note 4 - Compliance**

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

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Data Communication	\$6,627	\$9,628	\$3,001
SchoolNet Professional Development	652	1,642	990
OhioReads	0	1,000	1,000
Title VI	12	63	51
Rural Education Achievement Program	5,700	19,000	13,300
Capital Projects Funds			
SchoolNet Plus	294	2,000	1,706
Technology Equity	0	319	319

For the fiscal year ended June 30, 2004, the Education Management Information System special revenue fund had expenditures in excess of appropriations, in the amount of \$3,874. The School District will make sure all appropriations are reviewed prior to making expenditures and will limit appropriations to the amount of available resources.

#### **Note 5 - Budgetary Basis of Accounting**

While the School 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 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 as follows:

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

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Change in Fund Balance

GAAP Basis	\$5,658
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	714
Accrued FY 2004, Not Yet Received in Cash	(161)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(14,843)
Accrued FY 2004, Not Yet Paid in Cash	14,441
Prepaid Items	(926)
Budget Basis	<u><u>\$4,883</u></u>

**Note 6 - Deposits and Investments**

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

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

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

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) 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 (STAR Ohio).

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

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

At fiscal year end, the carrying amount of the School District's deposits was \$13,455 and the bank balance was \$17,861. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$71,917.

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$85,372	\$0
Investments:		
STAR Ohio	(71,917)	71,917
GASB Statement No. 3	\$13,455	\$71,917

**Note 7 - Receivables**

Receivables at June 30, 2004, consisted of intergovernmental receivables and property taxes. 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. All receivables are expected to be collected within one year. At June 30, 2004, the Rural Education Achievement Program special revenue fund had an intergovernmental receivable, in the amount of \$22,343.

**Note 8 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was 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 reflected 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 \$161 in the General Fund. The amount available as an advance at June 30, 2003, was \$714 in the General Fund.

On a full accrual basis delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue is deferred. As of June 30, 2004, the School District had no delinquent property taxes outstanding.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$810,330	90.78%	\$665,190	87.36%
Industrial/Commercial	43,970	4.93	44,880	5.89
Public Utility	37,190	4.17	44,350	5.82
Tangible Personal	1,180	0.12	7,060	0.93
Total Assessed Value	<u>\$892,670</u>	<u>100.00%</u>	<u>\$761,480</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$28.60		\$28.60	

**Note 9 - Capital Assets**

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

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$6,514	\$0	\$0	\$6,514
Depreciable Capital Assets				
Land Improvements	5,510	0	0	5,510
Buildings and Building Improvements	16,855	0	0	16,855
Furniture, Fixtures, and Equipment	12,952	1,070	(3,457)	10,565
Total Depreciable Capital Assets	35,317	1,070	(3,457)	32,930
Less Accumulated Depreciation				
Land Improvements	(826)	(275)	0	(1,101)
Buildings and Building Improvements	(11,461)	(225)	0	(11,686)
Furniture, Fixtures, and Equipment	(10,800)	(1,380)	3,457	(8,723)
Total Accumulated Depreciation	(23,087)	(1,880)	3,457	(21,510)
Depreciable Capital Assets, Net	12,230	(810)	0	11,420
Governmental Activities Capital Assets, Net	\$18,744	(\$810)	\$0	\$17,934

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,107
Support Services:	
Fiscal	773
Total Depreciation Expense	<u>\$1,880</u>

**Note 10 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.



## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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Coverage provided by Cincinnati Insurance is as follows:

Buildings and Contents - replacement cost (\$1,000 deductible)	\$250,000
Business and Personal Property (\$1,000 deductible)	50,000

Coverage provided by United Insurance Service is as follows:

General School District Liability	
Per Occurrence	1,000,000
Total per Year	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

Workers' Compensation coverage is provided by the State of Ohio. The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

#### **Note 11 - Defined Benefit Pension Plans**

##### **A. 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 retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available 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.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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.

## North Bass Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$5,094, \$5,457, and \$3,291, respectively; 80 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

#### **B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. 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 contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$1,278, \$999, and \$649, respectively, 29 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

#### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

#### **Note 12 - Postemployment Benefits**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$392.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$1,000 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$355.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Note 13 - Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from State laws. No employees of the School District earn vacation time.

The teacher and administrator earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred twenty days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of thirty days.

**Note 14 - Long-Term Obligations**

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

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts Due Within One Year
Governmental Activities					
Compensated Absences Payable	\$909	\$151	\$0	\$1,060	\$0

Compensated absences will be paid from the General Fund and EMIS special revenue fund.

**North Bass Local School District**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

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**Note 15 - Set Asides**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbooks	Capital Improvements
Balance June 30, 2003	(\$9,439)	\$270
Current Year Set Aside Requirement	445	445
Qualifying Expenditures	(3,256)	(715)
Balance June 30, 2004	(\$12,250)	\$0

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

**Note 16 - Jointly Governed Organizations**

**A. Northern Ohio Educational Computer Association**

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization 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 school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**B. Northwest Ohio Special Education Regional Resource Center**

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating school districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Treasurer, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

## North Bass Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)

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### **Note 17 - 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 School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

### **Note 18 - Contingencies**

#### **A. Grants**

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

#### **B. Litigation**

There are currently no matters in litigation with the School District as defendant.

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**Auditor of State  
Betty Montgomery**

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

North Bass Local School District  
Ottawa County  
515 Kenny Road, P.O. Box 8  
Isle Saint George, Ohio 43436-9999

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Bass Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 9, 2005, we reported other matters related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 9, 2005





**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 BASS LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 12, 2005**