

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2005

With

Independent Auditors' Report



Mary Taylor, CPA

Auditor of State

Board of Education
North Baltimore Local School District
201 S. Main Street
North Baltimore, Ohio 45872

We have reviewed the *Independent Auditors' Report* of the North Baltimore Local School District, Wood County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2006. 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.

Finding for Recovery

Ohio Rev. Code Section 9.39 states that all officials are liable for all public money received or collected by them or by their subordinates under color of office.

Ohio Revised Code Section 9.38 and North Baltimore's Local School Daily Deposit Procedures require that all moneys collected are receipted, accounted for and deposited every 24 hours if possible. In the event the Treasurer or person in charge of an activity is unable to deposit the money within 24 hours, the money will be accounted for and deposited in the safe. The money can be held not longer than three business days after receipt and the amount must be under \$1,000. If the amount is more than \$1,000, or the money cannot be adequately safeguarded, it must be deposited on the business day following the date of the receipt.

Monies collected by the Main Building Secretary, Doni Flores, were not deposited in accordance with the guidelines established under North Baltimore Local School District's Regular Daily Deposit Procedures and were subsequently reported stolen. During the normal course of reviewing student activity receipts and performing an "internal audit" of the cash receipt process at individual school buildings, Eve Baldwin, District Treasurer and her staff determined that 37 receipts had been recorded in a manual receipt ledger by the Main Building Secretary, Doni Flores in which there was no corresponding deposit in the School District's bank account. Teachers, students and parents brought cash collections to the building secretary and were provided with a hand-written receipt acknowledging the secretary's collection of the moneys. However, these receipts were not deposited in the School District's bank account.

During the period of February 3, 2005 to August 29, 2006 there were 37 receipts ranging in amounts from \$3.00 to \$3,150.00 totaling \$5,587.48 that were collected and receipts issued by the Main Building Secretary Doni Flores. The deposits were kept in a walk-in vault which was typically left both open and unlocked during the school day. In addition, the cash collections procedures were not followed and deposits were not always made on a daily basis. A police report has been filed with the North Baltimore Police Department.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against Doni Flores, Main Building Secretary and the Travelers Casualty and Surety Company of America, jointly and severally, in the amount of five-thousand five-hundred eighty-seven dollars and forty-eight cents (\$5,587.48) and in favor of North Baltimore's Local School District General Fund in the amount of \$2,042.98, Class of 2010 Fund in the amount of \$394.50 and Musical Fund in the amount of \$3,150.00.

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 18, 2007

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

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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 20, 2005, 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, 2005, 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, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosure* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006 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 35 through 36 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, Hachett & Co.

Cincinnati, Ohio
November 2, 2006

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, 2005. 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 2005 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$1,275,143. Of this amount, \$1,083,255 is unrestricted.
- ✓ In total, net assets increased by \$129,936.
- ✓ The School District had \$7,420,910 in expenses related to governmental activities; only \$901,202 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$6,649,644, made up primarily of property taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance increased by \$5,000 from \$1,114,109 at June 30, 2004 to \$1,119,109 at June 30, 2005.

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.

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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.

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Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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, 2005:

	<u>FY05</u>	<u>FY04</u>
Current and other assets	\$ 5,691,125	5,591,808
Capital assets	<u>2,400,390</u>	<u>2,503,266</u>
Total assets	<u>8,091,515</u>	<u>8,095,074</u>
Long-term debt outstanding	531,246	538,717
Other liabilities	<u>6,285,126</u>	<u>6,411,150</u>
Total liabilities	<u>6,816,372</u>	<u>6,949,867</u>
Net assets:		
Invested in capital assets, net of debt	(84,610)	(256,877)
Restricted:		
For capital purposes	47,058	120,198
Other purposes	229,440	297,920
Unrestricted	<u>1,083,255</u>	<u>983,966</u>
Total net assets	\$ <u>1,275,143</u>	<u>1,145,207</u>

Overall, the changes in fiscal year 2005 were not significant. Assets of the School District decreased approximately \$4,000. Total liabilities decreased about \$134,000. A decrease of \$190,000 of notes payable was offset by increases in accounts payable and deferred revenue related to property tax revenue recognition.

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B. Governmental Activities during fiscal year 2005

The following table presents a condensed summary of the School District's activities during fiscal year 2005 and the resulting change in net assets:

	<u>FY05</u>	<u>FY04</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 360,299	326,558
Operating grants and contributions	536,325	391,101
Capital grants and contributions	<u>4,578</u>	<u>18,975</u>
Total program revenues	<u>901,202</u>	<u>736,634</u>
General revenues:		
Property taxes	2,855,593	2,990,821
Grants and entitlements	3,501,123	3,458,055
Investment earnings	40,261	24,612
Miscellaneous	<u>252,667</u>	<u>259,669</u>
Total general revenues	<u>6,649,644</u>	<u>6,733,157</u>
Total revenues	<u>7,550,846</u>	<u>7,469,791</u>
Expenses:		
Instruction	3,883,781	3,483,599
Support services:		
Pupil	289,720	260,343
Instructional staff	969,707	946,081
Board of Education	56,081	46,846
Administration	560,631	526,085
Fiscal	272,523	229,101
Business	-	7,005
Operation and maintenance of plant	569,446	797,700
Pupil transportation	304,272	204,989
Central	4,524	2,295
Non-instructional services	203,810	360,355
Interest and fiscal charges	67,214	73,084
Food services	<u>239,201</u>	<u>279,859</u>
Total expenses	<u>7,420,910</u>	<u>7,217,342</u>
Change in net assets	\$ <u><u>129,936</u></u>	<u><u>252,449</u></u>

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Of the total governmental activities revenues of \$7,550,846, \$901,202 (12%) 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, 43% (\$2,855,593) comes from property tax levies and 53% (\$3,501,123) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Overall, the School District's revenues and expenses were consistent with the prior fiscal year. Revenues increased by approximately \$81,000 which represents about a 1% increase. Expenses increased by approximately \$204,000 which also represents slightly less than a 3% increase.

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 12% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$3,883,781 but program revenue contributed to fund 15% of those costs. Thus, general revenues of \$3,294,574 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets increased by \$129,936 due primarily to a stable financial situation enhanced by the additional tax revenues provided over the past two fiscal years by 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	\$	3,883,781	589,207	15%	3,294,574
Support services		3,026,904	26,251	1%	3,000,653
Non-instructional services		443,011	285,744	65%	157,267
Interest and fiscal charges		<u>67,214</u>	<u>-</u>	0%	<u>67,214</u>
Total	\$	<u>7,420,910</u>	<u>901,202</u>	<u>12%</u>	<u>6,519,708</u>

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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 \$4,648,023 (81%) of the total \$5,705,155 governmental funds assets.

General Fund. Fund balance at June 30, 2005 was \$1,119,109, with an unreserved fund balance of \$566,357. The fund balance increased by \$5,000. 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 \$301,000 due to increased state funding. Likewise, on the expenditure side, total appropriations increased by about \$310,000 primarily in the instruction function due to available state funding.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2005, the School District had \$2,400,390 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)**

		<u>FY05</u>	<u>FY04</u>
Land	\$	39,592	17,829
Land improvements		-	-
Buildings and improvements		2,133,302	2,210,970
Equipment and furniture		71,349	192,430
Vehicles		<u>156,147</u>	<u>82,037</u>
Total	\$	<u><u>2,400,390</u></u>	<u><u>2,503,266</u></u>

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Debt

The School District paid the final required scheduled principal payment of \$11,855 on its energy project notes during the fiscal 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 2011, 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 2008 based on current estimates.

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, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,377,603
Receivables:	
Taxes	3,170,454
Accounts	7,373
Intergovernmental	22,354
Supplies inventory	7,954
Restricted cash and investments	105,387
Nondepreciable capital assets	39,592
Depreciable capital assets, net	<u>2,360,798</u>
Total assets	<u>8,091,515</u>
Liabilities:	
Accounts payable	55,367
Accrued wages and benefits	633,254
Intergovernmental payable	150,605
Deferred revenue	2,920,519
Accrued interest payable	40,381
Notes payable	2,485,000
Noncurrent liabilities:	
Due within one year	116,025
Due within more than one year	<u>415,221</u>
Total liabilities	<u>6,816,372</u>
Net Assets:	
Invested in capital assets, net of related debt	(84,610)
Restricted for:	
Capital projects	47,058
Other purposes	229,440
Unrestricted	<u>1,083,255</u>
Total net assets	<u>\$ 1,275,143</u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2005

	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	\$ 2,789,911	138,763	18,914	-	(2,632,234)
Special education	719,940	-	431,530	-	(288,410)
Other	373,930	-	-	-	(373,930)
Support services:					
Pupil	289,720	-	4,748	-	(284,972)
Instructional staff	969,707	-	9,000	-	(960,707)
Board of Education	56,081	-	-	-	(56,081)
Administration	560,631	-	7,925	-	(552,706)
Fiscal	272,523	-	-	-	(272,523)
Operation and maintenance of plant	569,446	-	-	-	(569,446)
Pupil transportation	304,272	-	-	4,578	(299,694)
Central	4,524	-	-	-	(4,524)
Non-instructional services:					
Extracurricular activities	203,810	49,125	-	-	(154,685)
Food service	239,201	172,411	64,208	-	(2,582)
Interest on long-term debt	67,214	-	-	-	(67,214)
Total Governmental Activities	<u>7,420,910</u>	<u>360,299</u>	<u>536,325</u>	<u>4,578</u>	<u>(6,519,708)</u>
General Revenues:					
Property taxes, levied for general purposes					2,514,062
Property taxes, levied for debt services					226,002
Property taxes, levied for capital projects					115,529
Grants and entitlements not restricted to specific programs					3,501,123
Investment earnings					40,261
Miscellaneous					<u>252,667</u>
Total general revenues					<u>6,649,644</u>
Change in net assets					129,936
Net assets beginning of year					<u>1,145,207</u>
Net assets end of year					<u><u>1,275,143</u></u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 1,743,963	-	633,640	2,377,603
Restricted cash	105,387	-	-	105,387
Receivables:				
Taxes	2,777,270	-	393,184	3,170,454
Accounts	7,373	-	-	7,373
Intergovernmental	-	-	22,354	22,354
Materials and supplies inventory	-	-	7,954	7,954
Interfund receivable	14,030	-	-	14,030
Total assets	4,648,023	-	1,057,132	5,705,155
Liabilities:				
Accounts payable	46,107	-	9,260	55,367
Accrued wages and benefits	582,346	-	50,908	633,254
Intergovernmental payable	137,166	-	13,439	150,605
Interfund payable	-	-	14,030	14,030
Compensated absences payable	116,025	-	-	116,025
Deferred revenue	2,647,270	-	380,483	3,027,753
Notes payable	-	2,485,000	-	2,485,000
Total liabilities	3,528,914	2,485,000	468,120	6,482,034
Fund Balances:				
Reserved for:				
Encumbrances	317,365	-	63,110	380,475
Budget stabilization	105,387	-	-	105,387
Property taxes	130,000	-	20,000	150,000
Unreserved, reported in:				
General Fund	566,357	-	-	566,357
Special Revenue Funds	-	-	497,131	497,131
Capital Projects Funds	-	(2,485,000)	8,771	(2,476,229)
Total fund balances	1,119,109	(2,485,000)	589,012	(776,879)
Total liabilities and fund balances	\$ 4,648,023	-	1,057,132	5,705,155

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances		\$ (776,879)
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,400,390
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		107,234
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Accrued interest payable	40,381	
Compensated absences	<u>415,221</u>	
Total		<u>(455,602)</u>
 Net Assets of Governmental Activities		 \$ <u>1,275,143</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2005

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,520,142	-	340,598	2,860,740
Tuition and fees	138,763	-	-	138,763
Interest	40,261	-	-	40,261
Charges for services	-	-	172,411	172,411
Intergovernmental	3,505,701	-	569,774	4,075,475
Other local revenues	18,995	-	292,685	311,680
Total revenues	6,223,862	-	1,375,468	7,599,330
Expenditures:				
Current:				
Instruction:				
Regular	2,582,300	-	150,362	2,732,662
Special education	267,196	-	444,372	711,568
Other instruction	366,188	-	7,182	373,370
Support services:				
Pupil	282,552	-	4,748	287,300
Instructional staff	937,181	-	34,083	971,264
Board of Education	56,081	-	-	56,081
Administration	533,902	-	8,131	542,033
Fiscal	262,218	-	7,605	269,823
Operation and maintenance of plant	514,685	-	10,623	525,308
Pupil transportation	270,427	-	-	270,427
Central	(5,625)	-	10,149	4,524
Non-instructional services:				
Extracurricular activities	73,053	-	120,785	193,838
Food service	-	-	229,876	229,876
Capital outlay	-	-	45,265	45,265
Debt Service:				
Principal	73,288	-	11,855	85,143
Interest and fiscal charges	4,744	21,337	752	26,833
Total expenditures	6,218,190	21,337	1,085,788	7,325,315
Excess of revenues over (under) expenditures	5,672	(21,337)	289,680	274,015
Other financing sources (uses):				
Transfers in	-	236,553	672	237,225
Transfers out	(672)	-	(236,553)	(237,225)
Total other financing sources (uses):	(672)	236,553	(235,881)	-
Net change in fund balance	5,000	215,216	53,799	274,015
Fund balance, beginning of year, restated	1,114,109	(2,700,216)	535,213	(1,050,894)
Fund balance, end of year	\$ 1,119,109	(2,485,000)	589,012	(776,879)

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, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	274,015
<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		33,751
Depreciation expense		(126,739)
Repayment of notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		11,855
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.		73,288
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.		(87,750)
In the statement of activities, only gains or losses on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.		(9,888)
Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.		<u>(38,596)</u>
Change in Net Assets of Governmental Activities	\$	<u>129,936</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2005

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>21,554</u>
Total assets	<u><u>21,554</u></u>
LIABILITIES	
Due to student groups	<u>21,554</u>
Total liabilities	\$ <u><u>21,554</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, 2005

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 School District has elected not to follow subsequent private-sector guidance. 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, 2005

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, 2005

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, 2005

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, 2005, which are intended to finance fiscal year 2006 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.

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 2005, 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, 2005, 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 2005. 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, 2005.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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.

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

The School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

The School District has implemented GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. The Technical Bulletin clarifies the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit plans. The implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balances previously reported:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>
Fund balance at June 30, 2004 as previously reported	\$ 1,147,837	541,277
Implementation of GASB Technical Bulletin 2004-2	<u>(33,728)</u>	<u>(6,064)</u>
Fund balance at June 30, 2004, restated	\$ <u>1,114,109</u>	<u>535,213</u>

3. DEFICIT FUND BALANCES

At June 30, 2005, the Building Fund and the Food Services special revenue fund had deficit fund balances of \$2,485,000 and \$13,446, respectively, which were 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, 2005

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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*, and amended by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. At year-end, \$1,642,731 of the School District's bank balance of \$1,742,731 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investment in STAROhio is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The fair value of the School District's investment in STAROhio is \$829,413 at June 30, 2005.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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, 2005 are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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, 2005. 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, 2005, was \$130,000 in the General Fund, \$14,000 in the Debt Service Fund, and \$6,000 in the Capital Projects Fund. The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 52,087,280	70.53%	52,252,510	72.24%
Public Utility	6,088,830	8.24%	5,704,050	7.89%
Tangible Personal Property	<u>15,676,524</u>	21.23%	<u>14,379,495</u>	19.88%
Total Assessed Value	\$ <u>73,852,634</u>	100.00%	<u>72,336,055</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$54.66		\$55.00

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

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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.

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, 2005 was as follows:

	Balance 7/1/04	Additions	Disposals	Balance 6/30/05
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 17,829	21,763	-	39,592
Depreciable:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	3,631,259	-	-	3,631,259
Vehicles	593,052	-	-	593,052
Equipment and furniture	255,782	11,988	(21,078)	246,692
Subtotal	<u>4,671,851</u>	<u>11,988</u>	<u>(21,078)</u>	<u>4,662,761</u>
Totals at historical cost	<u>4,689,680</u>	<u>33,751</u>	<u>(21,078)</u>	<u>4,702,353</u>
Less accumulated depreciation:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	1,420,289	77,668	-	1,497,957
Vehicles	403,060	33,845	-	436,905
Equipment and furniture	171,307	15,226	(11,190)	175,343
Total accumulated depreciation	<u>2,186,414</u>	<u>126,739</u>	<u>(11,190)</u>	<u>2,301,963</u>
Capital assets, net	<u>\$ 2,503,266</u>	<u>(92,988)</u>	<u>(9,888)</u>	<u>2,400,390</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 25,005
Special	8,634
Other instruction	577
Support services:	
Pupil	2,496
Instructional staff	4,799
School administration	8,604
Fiscal	2,739
Operation and maintenance of plant	21,140
Pupil transportation	33,845
Extracurricular activities	9,382
Food service	9,518
	<hr/>
Total depreciation expense	\$ <u>126,739</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 9% 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, 2005, 2004, and 2003 were approximately \$129,000, \$124,000, and \$115,000, respectively; 46% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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 basis 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, 2005, 2004, and 2003, were approximately \$400,000, \$379,000 and \$360,000 respectively; 83% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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, 2005, 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 \$29,000 during fiscal year 2005. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268.7 million 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, 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 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$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, 2004 were \$223.4 million and the target level was \$335.2 million. At June 30, 2004, SERS' net assets available for payment of health care benefits were \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, equaled approximately \$45,000 during the 2005 fiscal year.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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, 2005 follows:

	Principal Outstanding 7/1/04	Additions	Deletions	Principal Outstanding 6/30/05
Bond anticipation notes	\$ <u>2,675,000</u>	<u>2,485,000</u>	<u>(2,675,000)</u>	<u>2,485,000</u>

Bond Anticipation Notes - 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 matured on December 16, 2004 and were paid in full. On December 16, 2004, the School District issued \$2,485,000 of bond anticipation notes for school improvements bearing interest at 3.00%. These notes mature on December 15, 2005.

12. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 7/1/04	Additions	Reductions	Principal Outstanding 6/30/05	Amounts Due in One Year
<i>Governmental Activities:</i>					
Energy project notes	\$ 11,855	-	(11,855)	-	-
Capital leases	73,288	-	(73,288)	-	-
Compensated absences	453,574	158,825	(81,153)	531,246	116,025
Total	\$ <u>538,717</u>	<u>158,825</u>	<u>(166,296)</u>	<u>531,246</u>	<u>116,025</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

Energy Project Notes - These notes were issued in March 1995 for energy-saving projects. The notes paid interest at 6.5% and matured in March 2005.

Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$6,510,245 with an unvoted debt margin of \$72,336 at June 30, 2005.

13. TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	672
Building Fund	236,553	-
Non-major Governmental Funds	<u>672</u>	<u>236,553</u>
Total	<u>\$ 237,225</u>	<u>237,225</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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, 2005

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, 2005.

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, 2005

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, 2004	\$	(215,503)	-	105,387
Current year set-aside requirement		97,979	97,979	-
Less qualifying disbursements		<u>(116,156)</u>	<u>(152,432)</u>	<u>-</u>
Total		<u>(233,680)</u>	<u>(54,453)</u>	<u>105,387</u>
Balance carried to FY2006		<u>(233,680)</u>	<u>-</u>	<u>105,387</u>
Cash balance as of June 30, 2005	\$	<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, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:				
Taxes	\$ 2,622,928	2,616,142	2,616,142	-
Tuition and fees	127,229	138,763	138,763	-
Interest	24,612	40,261	40,261	-
Intergovernmental	3,232,440	3,505,702	3,505,702	-
Other local revenues	<u>2,417</u>	<u>9,529</u>	<u>9,529</u>	<u>-</u>
Total revenues	<u>6,009,626</u>	<u>6,310,397</u>	<u>6,310,397</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,389,552	2,536,514	2,536,514	-
Special education	278,332	294,431	294,431	-
Other instruction	352,913	400,348	400,348	-
Support services:				
Pupil	252,578	297,585	297,585	-
Instructional staff	940,771	934,528	934,528	-
Board of Education	47,108	84,496	84,496	-
Administration	516,510	522,846	522,846	-
Fiscal	238,530	282,477	282,477	-
Operation and maintenance of plant	803,363	795,518	795,518	-
Pupil transportation	297,481	270,639	270,639	-
Non-instructional services:				
Extracurricular activities	146,804	154,057	154,057	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,263,942</u>	<u>6,573,439</u>	<u>6,573,439</u>	<u>-</u>
Excess of revenues over expenditures	(254,316)	(263,042)	(263,042)	-
Other financing sources (uses):				
Transfers in	96,793	462,318	462,318	-
Transfers out	(44,565)	(433,009)	(433,009)	-
Other sources	<u>-</u>	<u>5,676</u>	<u>5,676</u>	<u>-</u>
Total other financing sources (uses):	<u>52,228</u>	<u>34,985</u>	<u>34,985</u>	<u>-</u>
Net change in fund balance	(202,088)	(228,057)	(228,057)	-
Fund balance, beginning of year	1,455,417	1,455,417	1,455,417	
Prior year encumbrances appropriated	<u>258,517</u>	<u>258,517</u>	<u>258,517</u>	
Fund balance, end of year	\$ <u>1,511,846</u>	<u>1,485,877</u>	<u>1,485,877</u>	

See accompanying notes to required supplemental information.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2005

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:

		<u>General</u>
Net change in fund balance - GAAP Basis	\$	5,000
Increase / (decrease):		
Due to revenues		86,535
Due to expenditures		305,553
Due to other sources (uses)		35,657
Due to encumbrances		<u>(660,802)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$	<u><u>(228,057)</u></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, 2005, which collectively comprise North Baltimore Local School District's basic financial statements and have issued our report thereon dated November 2, 2006, wherein we noted that the School District implemented Governmental Accounting Standards Board Statement No. 40 and Governmental Accounting Standards Board Bulletin 2004-2. 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 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*.

We noted certain matters that we reported to management of the School District in a separate letter dated November 2, 2006.

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

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
November 2, 2006

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2006

With

Independent Auditors' Report

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

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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, 2006, 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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006 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 35 through 36 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, Hachett & Co.

Cincinnati, Ohio
November 2, 2006

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, 2006. 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 2006 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$1,357,527. Of this amount, \$1,035,091 is unrestricted.
- ✓ In total, net assets increased by \$82,384.
- ✓ The School District had \$7,675,533 in expenses related to governmental activities; only \$968,630 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$6,789,287, made up primarily of property taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance decreased by \$51,874 from \$1,119,109 at June 30, 2005 to \$1,067,235 at June 30, 2006.

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, 2006
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, 2006
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, 2006:

	<u>FY06</u>	<u>FY05</u>
Current and other assets	\$ 5,830,112	5,691,125
Capital assets	<u>2,275,597</u>	<u>2,400,390</u>
Total assets	<u>8,105,709</u>	<u>8,091,515</u>
Long-term debt outstanding	567,104	531,246
Other liabilities	<u>6,181,078</u>	<u>6,285,126</u>
Total liabilities	<u>6,748,182</u>	<u>6,816,372</u>
Net assets:		
Invested in capital assets, net of debt	(44,403)	(84,610)
Restricted:		
For capital purposes	113,485	47,058
Other purposes	128,933	58,078
Debt service	124,421	171,362
Unrestricted	<u>1,035,091</u>	<u>1,083,255</u>
Total net assets	\$ <u><u>1,357,527</u></u>	<u><u>1,275,143</u></u>

Overall, the changes in fiscal year 2006 were not significant. Assets of the School District increased approximately \$14,000. Total liabilities decreased about \$68,000. A decrease of \$165,000 of notes payable was offset by increases in accrued wages and benefits and deferred revenue related to property tax revenue recognition.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

B. Governmental Activities during fiscal year 2006

The following table presents a condensed summary of the School District's activities during fiscal year 2006 and the resulting change in net assets:

	<u>FY06</u>	<u>FY05</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 410,632	360,299
Operating grants and contributions	545,967	536,325
Capital grants and contributions	<u>12,031</u>	<u>4,578</u>
Total program revenues	<u>968,630</u>	<u>901,202</u>
General revenues:		
Property taxes	2,877,572	2,855,593
Grants and entitlements	3,629,497	3,501,123
Investment earnings	88,240	40,261
Miscellaneous	<u>193,978</u>	<u>252,667</u>
Total general revenues	<u>6,789,287</u>	<u>6,649,644</u>
Total revenues	<u>7,757,917</u>	<u>7,550,846</u>
Expenses:		
Instruction	3,839,238	3,883,781
Support services:		
Pupil	229,427	289,720
Instructional staff	1,085,640	969,707
Board of Education	98,688	56,081
Administration	564,199	560,631
Fiscal	261,390	272,523
Operation and maintenance of plant	669,681	569,446
Pupil transportation	304,953	304,272
Central	-	4,524
Non-instructional services	280,304	203,810
Interest and fiscal charges	85,485	67,214
Food services	<u>256,528</u>	<u>239,201</u>
Total expenses	<u>7,675,533</u>	<u>7,420,910</u>
Change in net assets	\$ <u>82,384</u>	<u>129,936</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

Of the total governmental activities revenues of \$7,757,917, \$968,630 (12%) 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, 42% (\$2,877,572) comes from property tax levies and 53% (\$3,629,497) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Overall, the School District's revenues and expenses were consistent with the prior fiscal year. Revenues increased by approximately \$207,000 which represents less than a 3% increase. Expenses increased by approximately \$255,000 which also represents approximately a 3% increase.

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 13% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$3,839,238 but program revenue contributed to fund 16% of those costs. Thus, general revenues of \$3,215,221 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets increased by \$82,384 due primarily to a stable financial situation enhanced by the additional tax revenues provided over the past two fiscal years by 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	\$	3,839,238	624,017	16%	3,215,221
Support services		3,213,978	24,514	1%	3,189,464
Non-instructional services		536,832	320,099	60%	216,733
Interest and fiscal charges		<u>85,485</u>	<u>-</u>	0%	<u>85,485</u>
Total	\$	<u>7,675,533</u>	<u>968,630</u>	<u>13%</u>	<u>6,706,903</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
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 \$4,616,184 (79%) of the total \$5,855,811 governmental funds assets.

General Fund. Fund balance at June 30, 2006 was \$1,067,235, with an unreserved fund balance of \$683,092. The fund balance decreased by \$51,874. The unreserved fund balance represents approximately 11% 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 operational revenue increased approximately \$40,345 due to increased tangible tax collection. Originally, the tangible tax was projected low since this type of tax can be very unpredictable. On the other hand, the operational expenditure side decreased approximately \$49,189 due to not needing to spend the majority of the capital outlay budget. General fund capital outlay is only budgeted for emergencies and/or for new/replacement busses since the School District has permanent improvement dollars for other capital outlay expenditures.

CAPITAL ASSET ADMINISTRATION

Capital assets. At June 30, 2006, the School District had \$2,275,597 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 6 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

		<u>FY06</u>	<u>FY05</u>
Land	\$	39,592	39,592
Land improvements		-	-
Buildings and improvements		2,055,634	2,133,302
Equipment and furniture		57,579	71,349
Vehicles		<u>122,792</u>	<u>156,147</u>
Total	\$	<u><u>2,275,597</u></u>	<u><u>2,400,390</u></u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

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 2011, 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 2008 based on current estimates.

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, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,471,209
Receivables:	
Taxes	3,200,835
Accounts	5,569
Intergovernmental	35,825
Supplies inventory	11,287
Restricted cash and investments	105,387
Nondepreciable capital assets	39,592
Depreciable capital assets, net	<u>2,236,005</u>
Total assets	<u>8,105,709</u>
Liabilities:	
Accounts payable	75,511
Accrued wages and benefits	650,951
Intergovernmental payable	145,165
Deferred revenue	2,937,928
Accrued interest payable	51,523
Notes payable	2,320,000
Noncurrent liabilities:	
Due within one year	117,880
Due within more than one year	<u>449,224</u>
Total liabilities	<u>6,748,182</u>
Net Assets:	
Invested in capital assets, net of related debt	(44,403)
Restricted for:	
Capital projects	113,485
Other purposes	128,933
Debt service	124,421
Unrestricted	<u>1,035,091</u>
Total net assets	<u>\$ 1,357,527</u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2006

	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	\$ 2,772,967	168,381	28,498	8,832	(2,567,256)
Special education	677,911	-	407,736	-	(270,175)
Other	388,360	-	10,570	-	(377,790)
Support services:					
Pupil	229,427	-	4,591	-	(224,836)
Instructional staff	1,085,640	-	9,000	-	(1,076,640)
Board of Education	98,688	-	-	-	(98,688)
Administration	564,199	-	7,725	-	(556,474)
Fiscal	261,390	-	-	-	(261,390)
Operation and maintenance of plant	669,681	-	(1)	-	(669,682)
Pupil transportation	304,953	-	-	3,199	(301,754)
Non-instructional services:					
Extracurricular activities	280,304	72,104	-	-	(208,200)
Food service	256,528	170,147	77,848	-	(8,533)
Interest on long-term debt	85,485	-	-	-	(85,485)
Total Governmental Activities	<u>7,675,533</u>	<u>410,632</u>	<u>545,967</u>	<u>12,031</u>	<u>(6,706,903)</u>
General Revenues:					
Property taxes, levied for general purposes					2,523,143
Property taxes, levied for debt services					238,857
Property taxes, levied for capital projects					115,572
Grants and entitlements not restricted to specific programs					3,629,497
Investment earnings					88,240
Miscellaneous					193,978
Total general revenues					<u>6,789,287</u>
Change in net assets					82,384
Net assets beginning of year					<u>1,275,143</u>
Net assets end of year				\$	<u>1,357,527</u>

See accompanying notes to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 1,689,304	-	781,905	2,471,209
Restricted cash	105,387	-	-	105,387
Receivables:				
Taxes	2,790,408	-	410,427	3,200,835
Accounts	5,386	-	183	5,569
Intergovernmental	-	-	35,825	35,825
Materials and supplies inventory	-	-	11,287	11,287
Interfund receivable	25,699	-	-	25,699
Total assets	4,616,184	-	1,239,627	5,855,811
Liabilities:				
Accounts payable	31,015	-	44,496	75,511
Accrued wages and benefits	620,852	-	30,099	650,951
Intergovernmental payable	132,794	-	12,371	145,165
Interfund payable	-	-	25,699	25,699
Compensated absences payable	117,880	-	-	117,880
Deferred revenue	2,646,408	-	387,427	3,033,835
Notes payable	-	2,320,000	-	2,320,000
Total liabilities	3,548,949	2,320,000	500,092	6,369,041
Fund Balances:				
Reserved for:				
Encumbrances	134,756	-	83,532	218,288
Budget stabilization	105,387	-	-	105,387
Property taxes	144,000	-	23,000	167,000
Unreserved, reported in:				
General Fund	683,092	-	-	683,092
Special Revenue Funds	-	-	566,448	566,448
Capital Projects Funds	-	(2,320,000)	66,555	(2,253,445)
Total fund balances	1,067,235	(2,320,000)	739,535	(513,230)
Total liabilities and fund balances	\$ 4,616,184	-	1,239,627	5,855,811

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances		\$ (513,230)
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.		2,275,597
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		95,907
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued interest payable	51,523	
Compensated absences	<u>449,224</u>	
Total		<u>(500,747)</u>
 Net Assets of Governmental Activities		 \$ <u>1,357,527</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2006

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,524,840	-	356,760	2,881,600
Tuition and fees	168,381	-	-	168,381
Interest	88,240	-	-	88,240
Charges for services	-	-	170,147	170,147
Intergovernmental	3,632,696	-	562,098	4,194,794
Other local revenues	14,781	-	251,301	266,082
Total revenues	6,428,938	-	1,340,306	7,769,244
Expenditures:				
Current:				
Instruction:				
Regular	2,665,227	-	57,705	2,722,932
Special education	291,173	-	378,104	669,277
Other instruction	377,401	-	10,382	387,783
Support services:				
Pupil	222,340	-	4,591	226,931
Instructional staff	1,053,007	-	27,834	1,080,841
Board of Education	98,688	-	-	98,688
Administration	547,445	-	7,785	555,230
Fiscal	252,983	-	5,668	258,651
Operation and maintenance of plant	544,372	-	62,704	607,076
Pupil transportation	271,598	-	-	271,598
Non-instructional services:				
Extracurricular activities	156,578	-	110,013	266,591
Food service	-	-	247,626	247,626
Capital outlay	-	-	38,028	38,028
Debt Service:				
Interest and fiscal charges	-	74,343	-	74,343
Total expenditures	6,480,812	74,343	950,440	7,505,595
Excess of revenues over (under) expenditures	(51,874)	(74,343)	389,866	263,649
Other financing sources (uses):				
Transfers in	-	239,343	-	239,343
Transfers out	-	-	(239,343)	(239,343)
Total other financing sources (uses):	-	239,343	(239,343)	-
Net change in fund balance	(51,874)	165,000	150,523	263,649
Fund balance, beginning of year	1,119,109	(2,485,000)	589,012	(776,879)
Fund balance, end of year	\$ 1,067,235	(2,320,000)	739,535	(513,230)

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, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	263,649
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense		(124,793)
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Some expenses reported in the statement of activities, such as compensated absences and accrued interest do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

		(45,145)
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Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.

		<u>(11,327)</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>82,384</u></u>
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NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>24,851</u>
Total assets	<u><u>24,851</u></u>
LIABILITIES	
Due to student groups	<u>24,851</u>
Total liabilities	\$ <u><u>24,851</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, 2006

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 School District has elected not to follow subsequent private-sector guidance. 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 13 and 14 to the basic financial statements.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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, 2006

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. 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, 2006

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, 2006, which are intended to finance fiscal year 2007 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.

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 2006, 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, 2006, 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 2006. 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, 2006.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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.

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. DEFICIT FUND BALANCE

At June 30, 2006, the Building Fund had a deficit fund balance of \$2,320,000 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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

3. 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.

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;

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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*, and amended by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. At year-end, \$1,714,229 of the School District's bank balance of \$1,880,777 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investment in STAROhio is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The fair value of the School District's investment in STAROhio is \$863,816 at June 30, 2006.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

4. 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 2004. 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, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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, 2006. 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, 2006, was \$144,000 in the General Fund, \$16,000 in the Debt Service Fund, and \$7,000 in the Capital Projects Fund.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

The assessed values upon which fiscal year 2006 taxes were collected are:

	<u>2005 Second- Half Collections</u>		<u>2006 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 52,252,510	72.24%	58,915,210	79.31%
Public Utility	5,704,050	7.89%	4,585,900	6.17%
Tangible Personal Property	<u>14,379,495</u>	19.88%	<u>10,785,781</u>	14.52%
Total Assessed Value	\$ <u>72,336,055</u>	100.00%	<u>74,286,891</u>	100.00%
Tax rate per \$1,000 of assessed valuation	\$55.00		\$55.50	

5. 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 14). 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.

The School District also participates in the Wood County Benefit Plan Association Employee Insurance Benefits Program, a group insurance purchasing pool (Note 14), 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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance 7/1/05	Additions	Disposals	Balance 6/30/06
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 39,592	-	-	39,592
Depreciable:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	3,631,259	-	-	3,631,259
Vehicles	593,052	-	-	593,052
Equipment and furniture	246,692	-	-	246,692
Subtotal	<u>4,662,761</u>	<u>-</u>	<u>-</u>	<u>4,662,761</u>
Totals at historical cost	<u>4,702,353</u>	<u>-</u>	<u>-</u>	<u>4,702,353</u>
Less accumulated depreciation:				
Land improvements	191,758	-	-	191,758
Buildings and improvements	1,497,957	77,668	-	1,575,625
Vehicles	436,905	33,355	-	470,260
Equipment and furniture	175,343	13,770	-	189,113
Total accumulated depreciation	<u>2,301,963</u>	<u>124,793</u>	<u>-</u>	<u>2,426,756</u>
Capital assets, net	<u>\$ 2,400,390</u>	<u>(124,793)</u>	<u>-</u>	<u>2,275,597</u>

NORTH BALTIMORE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 16,032
Special	8,634
Other instruction	577
Support services:	
Pupil	2,496
Instructional staff	4,799
School administration	8,969
Fiscal	2,739
Operation and maintenance of plant	24,577
Pupil transportation	33,355
Extracurricular activities	13,713
Food service	<u>8,902</u>
 Total depreciation expense	 \$ <u><u>124,793</u></u>

7. 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, 2006, 2005, and 2004 were approximately \$123,000, \$129,000, and \$124,000, respectively; 49% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is recorded as a liability.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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 basis 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the 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, 2006, 2005, and 2004, were approximately \$404,000, \$400,000 and \$379,000 respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is recorded as a liability.

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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

8. 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, 2006, 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 \$29,000 during fiscal year 2006. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 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 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. 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, 2005 were \$178.2 million and the target level was \$238.1 million. At June 30, 2005, SERS' net assets available for payment of health care benefits were \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, equaled approximately \$30,000 during the 2006 fiscal year.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

9. 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.

10. SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended June 30, 2006 follows:

	Principal Outstanding 7/1/05	Additions	Deletions	Principal Outstanding 6/30/06
Bond anticipation notes	\$ <u>2,485,000</u>	<u>2,320,000</u>	<u>(2,485,000)</u>	<u>2,320,000</u>

Bond Anticipation Notes - On December 16, 2004, the School District issued \$2,485,000 of bond anticipation notes for school improvements bearing interest at 3.00%. These notes matured on December 15, 2005 and were paid in full. On December 15, 2005, the School District issued \$2,320,000 of bond anticipation notes for school improvements bearing interest at 4.10%. These notes mature on December 14, 2006.

11. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding 7/1/05	Additions	Reductions	Principal Outstanding 6/30/06	Amounts Due in One Year
<i>Governmental Activities:</i>					
Compensated absences	\$ 531,246	151,883	(116,025)	567,104	117,880
Total	\$ <u>531,246</u>	<u>151,883</u>	<u>(116,025)</u>	<u>567,104</u>	<u>117,880</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$4,365,820 with an unvoted debt margin of \$74,287 at June 30, 2006.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

12. TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted a transfer of \$239,343 from a Non-Major Governmental Fund to the Building Fund.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

13. 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.

14. 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.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

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.

15. 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, 2006.

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, 2006

16. 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, 2005	\$	(233,680)	-	105,387
Current year set-aside requirement		103,697	103,697	-
Less qualifying disbursements and offsets		<u>(100,722)</u>	<u>(171,664)</u>	<u>-</u>
Total		<u>(230,705)</u>	<u>(67,967)</u>	<u>105,387</u>
Balance carried to FY2007		<u>(230,705)</u>	<u>-</u>	<u>105,387</u>
Cash balance as of June 30, 2006	\$	<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.

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, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 2,500,000	2,510,840	2,510,840	-
Tuition and fees	99,000	168,381	168,381	-
Interest	51,000	88,240	88,240	-
Intergovernmental	3,603,191	3,632,696	3,632,696	-
Other local revenues	-	8,515	8,515	-
Total revenues	6,253,191	6,408,672	6,408,672	-
Expenditures:				
Current:				
Instruction:				
Regular	2,518,557	2,649,489	2,649,489	-
Special education	294,431	276,953	276,953	-
Other instruction	400,347	392,303	392,303	-
Support services:				
Pupil	297,584	241,342	241,342	-
Instructional staff	934,527	1,058,759	1,058,759	-
Board of Education	84,495	102,819	102,819	-
Administration	522,845	553,861	553,861	-
Fiscal	282,477	285,301	285,301	-
Operation and maintenance of plant	795,518	610,406	610,406	-
Pupil transportation	270,638	295,494	295,494	-
Non-instructional services:				
Extracurricular activities	154,057	155,798	155,798	-
Total expenditures	6,555,476	6,622,525	6,622,525	-
Excess of revenues over expenditures	(302,285)	(213,853)	(213,853)	-
Other financing sources (uses):				
Transfers in	-	36,031	36,031	-
Transfers out	-	(47,699)	(47,699)	-
Other sources	-	8,255	8,255	-
Total other financing sources (uses):	-	(3,413)	(3,413)	-
Net change in fund balance	(302,285)	(217,266)	(217,266)	-
Fund balance, beginning of year	1,485,877	1,485,877	1,485,877	
Prior year encumbrances appropriated	363,472	363,472	363,472	
Fund balance, end of year	\$ 1,547,064	1,632,083	1,632,083	

See accompanying notes to required supplemental information.

NORTH BALTIMORE LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2006

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:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ (51,874)
Increase / (decrease):	
Due to revenues	(20,266)
Due to expenditures	519,089
Due to other sources (uses)	(3,413)
Due to encumbrances	<u>(660,802)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$ <u><u>(217,266)</u></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, 2006, which collectively comprise North Baltimore Local School District's basic financial statements and have issued our report thereon dated November 2, 2006. 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 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*.

We noted certain matters that we reported to management of the School District in a separate letter dated November 2, 2006.

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

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
November 2, 2006



Mary Taylor, CPA
Auditor of State

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 30, 2007**