



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Put-in-Bay Local School District
Ottawa County
549 Catawba Avenue
P.O. Box 659
Put-in-Bay, Ohio 43456-0659

To the Board of Education:

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 19, 2002

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts				
Local Sources:				
Taxes	\$1,314,601	\$21,591		\$1,336,192
Tuition	56,618			56,618
Earnings on Investment	20,637	316		20,953
Miscellaneous Receipts	2,070	3,126	\$6,617	11,813
State Sources:				
Unrestricted Grants-In-Aid	145,490			145,490
Restricted Grants-In-Aid	91,587	17,567		109,154
Federal Sources:				
Restricted Grants-In-Aid		8,533		8,533
Total Cash Receipts	1,631,003	51,133	6,617	1,688,753
Cash Disbursements				
Instruction:				
Regular	788,510	6,823	5,000	800,333
Special	74,837			74,837
Support Services:				
Pupils	89,298			89,298
Instructional Staff	13,768	12,042		25,810
Board of Education	6,204			6,204
Administration	103,538	1,000		104,538
Fiscal	70,323	423		70,746
Operation and Maintenance - Plant	104,247			104,247
Central Services		8,772		8,772
Pupil Transportation	8,941			8,941
Non-instructional Services:				
Community Service	1,000	22,819		23,819
Building Acquisition and Construction:				
Site Improvement	4,199			4,199
Other			157,625	157,625
Total Cash Disbursements	1,264,865	51,879	162,625	1,479,369
Excess of Cash Receipts Over (Under) Cash Disbursements	366,138	(746)	(156,008)	209,384
Other Financing Sources (Uses)				
Transfers-in		1,319	200,000	201,319
Refund of Prior Year's Expenditures	2,469			2,469
Transfers-out	(201,318)			(201,318)
Total Other Financing Sources (Uses)	(198,849)	1,319	200,000	2,470
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	167,289	573	43,992	211,854
Fund Cash Balances at Beginning of Fiscal Year	433,975	22,268	233,582	689,825
Fund Cash Balances at End of Fiscal Year	\$601,264	\$22,841	\$277,574	\$901,679
Reserve for Encumbrances	\$31,841	\$6,041	\$12,476	\$50,358

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - ALL FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Fiduciary Fund Types</u>		Totals (Memorandum Only)
	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts			
Earnings on Investments	\$3,746		\$3,746
Extracurricular Activities		\$25,271	25,271
Food Service		461	461
Miscellaneous Receipts	2,470	1,110	3,580
Total Operating Cash Receipts	6,216	26,842	33,058
Operating Cash Disbursements			
Supplies and Materials		8,560	8,560
Permanent Improvement		440,827	440,827
Other Objects	8,487	14,384	22,871
Total Operating Cash Disbursements	8,487	463,771	472,258
Excess of Operating Cash Disbursements Over Operating Cash Receipts	(2,271)	(436,929)	(439,200)
Non-Operating Cash Receipts			
Lease-Purchase Proceeds		440,827	440,827
Excess of Receipts Over Disbursements	(2,271)	3,898	1,627
Fund Cash Balances at Beginning of Fiscal Year	147,321	23,032	170,353
Fund Cash Balances at End of Fiscal Year	<u>\$145,050</u>	<u>\$26,930</u>	<u>\$171,980</u>
Reserve for Encumbrances			

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts				
Local Sources:				
Taxes	\$1,191,636	\$19,518		\$1,211,154
Tuition	43,011			43,011
Earnings on Investment	34,565	500		35,065
Miscellaneous Receipts	3,672	1,801	\$5,343	10,816
Intermediate Sources:				
Restricted Grants-In-Aid		5,000		5,000
State Sources:				
Unrestricted Grants-In-Aid	134,722			134,722
Restricted Grants-In-Aid	96,024	14,994	8,000	119,018
Federal Sources:				
Restricted Grants-In-Aid		926		926
Total Cash Receipts	1,503,630	42,739	13,343	1,559,712
Cash Disbursements				
Instruction:				
Regular	858,660	7,180	3,000	868,840
Special	64,716			64,716
Support Services:				
Pupils	72,851	6,000		78,851
Instructional Staff	544	3,040	2,250	5,834
Board of Education	5,647			5,647
Administration	94,736			94,736
Fiscal	74,083	342		74,425
Operation and Maintenance - Plant	104,761			104,761
Central Services		4,780		4,780
Pupil Transportation	10,746			10,746
Non-instructional Services:				
Community Service	330	18,824		19,154
Building Acquisition and Construction:				
Other			48,600	48,600
Total Cash Disbursements	1,287,074	40,166	53,850	1,381,090
Excess of Cash Receipts Over (Under) Cash Disbursements	216,556	2,573	(40,507)	178,622
Other Financing Sources (Uses)				
Transfers-in	37	2,031	219,603	221,671
Refund of Prior Year's Expenditures	670			670
Transfers-out	(221,634)	(37)		(221,671)
Total Other Financing Sources (Uses)	(220,927)	1,994	219,603	670
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	(4,371)	4,567	179,096	179,292
Fund Cash Balances at Beginning of Fiscal Year	438,346	17,701	54,486	510,533
Fund Cash Balances at End of Fiscal Year	\$433,975	\$22,268	\$233,582	\$689,825
Reserve for Encumbrances	\$13,945	\$3,617	\$4,088	\$21,650

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - ALL FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Fiduciary Fund Types</u>		Totals (Memorandum Only)
	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts			
Earnings on Investments	\$8,289		\$8,289
Extracurricular Activities		\$34,437	34,437
Food Service		243	243
Miscellaneous Receipts	<u>2,527</u>	<u>587</u>	<u>3,114</u>
Total Operating Cash Receipts	10,816	35,267	46,083
Operating Cash Disbursements			
Supplies and Materials		4,724	4,724
Other Objects	<u>7,864</u>	<u>29,133</u>	<u>36,997</u>
Total Operating Cash Disbursements	<u>7,864</u>	<u>33,857</u>	<u>41,721</u>
Excess of Receipts Over Disbursements	2,952	1,410	4,362
Fund Cash Balances at Beginning of Fiscal Year	<u>144,369</u>	<u>21,622</u>	<u>165,991</u>
Fund Cash Balances at End of Fiscal Year	<u>\$147,321</u>	<u>\$23,032</u>	<u>\$170,353</u>
Reserve for Encumbrances			

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The Put-in-Bay Local School District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for the provision of public education to residents of the District.

The District operates one instructional facility and provides educational services to students from grades 1 through 12.

The District believes these financial statements present all activities for which the District is accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

B. Cash and Investments

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

The investments in STAR Ohio (the State Treasurer's investment pool) are valued at amounts reported by the State Treasurer.

C. Fund Accounting

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The District had the following significant special revenue fund:

Community Education Fund - This fund is used to account for receipts and expenditures for developing, maximizing, coordinating, enhancing, strengthening, and further legitimizing the process of community interaction and communication with the District.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The District had the following significant capital project fund:

Permanent Improvement Fund - This fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements which are funded from a tax levy.

4. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the District to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the District is acting in an agency capacity are classified as agency funds. The District had the following significant fiduciary funds:

Endowment Fund - This fund is used to account for money which has been set aside as an investment for public school purposes. The income from the fund may be expended, but the principal must remain intact. The fund is classified as a nonexpendable trust fund.

Fifth-Third Bank Lease/Purchase Fund - This fund is used to account for non-operating finances associated with the school building improvements in accordance with the lease/purchase agreement. This fund is classified as an agency fund.

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Education must annually approve appropriation

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

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

E. Property, Plant and Equipment

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

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

The carrying amount of cash at June 30, 2002 was as follows:

Bank Deposits:	
Demand Deposits	\$109,003
Savings Accounts	964,656
Total Bank Deposits	<u>\$1,073,659</u>

The carrying amount of cash and investments at June 30, 2001 was as follows:

Bank Deposits:	
Demand Deposits	\$46,694
Savings Account	7,700
Total Deposits	<u>54,394</u>
Investments:	
STAR Ohio	805,784
Total Bank Deposits and Investments	<u><u>860,178</u></u>

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

A. Deposits

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

B. Investments

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. BUDGETARY ACTIVITY

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

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,053,216	\$1,633,472	(\$419,744)
Special Revenue	52,452	52,452	
Capital Projects	206,617	206,617	
Fiduciary	6,216	6,216	
Total	\$2,318,501	\$1,898,757	(\$419,744)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,735,317	\$1,498,024	\$237,293
Special Revenue	64,391	57,919	6,472
Capital Projects	315,001	175,101	139,900
Fiduciary	11,500	8,487	3,013
Total	\$2,126,209	\$1,739,531	\$386,678

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,916,285	\$1,504,337	(\$411,948)
Special Revenue	44,771	44,771	
Capital Projects	232,946	232,946	
Fiduciary	10,816	10,816	
Total	\$2,204,818	\$1,792,870	(\$411,948)

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,705,363	\$1,522,653	\$182,710
Special Revenue	56,510	43,820	12,690
Capital Projects	120,250	57,938	62,312
Fiduciary	13,865	7,864	6,001
Total	\$1,895,988	\$1,632,275	\$263,713

5. PROPERTY TAX

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

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

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

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

6. LEASE/PURCHASE AGREEMENT

The District entered into a lease/purchase agreement with Fifth-Third Bank in accordance with § 3313.375 of the Ohio Revised Code. This agreement is for building improvements to the District's only school building. The District will pay the Bank semi-annual rent payments for 15 years, starting October 15, 2002 and ending with the final payment on April 15, 2017, with an annual interest rate of 5.93 percent. The semi-annual rent payments including principal and interest will be \$76,870.76. As stated in the lease/purchase agreement, the District can fully execute the terms of the agreement at any time by paying off remaining payments in a lump sum. Upon fully executing the terms of the lease/purchase agreement the District will assume ownership of the school building.

7. RETIREMENT SYSTEMS

A. School Employees Retirement System

The District's non-teaching employees belong to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

Contributions rates are also prescribed by the Ohio Revised Code. For fiscal years 2002 and 2001, members of SERS contributed 9 percent of their wages to the SERS. The District contributed an amount equal to 14 percent of their wages.

B. State Teachers Retirement System

The District's teaching employees belong to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Contributions rates are also prescribed by the Ohio Revised Code. For fiscal years 2002 and 2001, members of STRS contributed 9.3 percent of their wages to the SERS. The District contributed an amount equal to 14 percent of their wages.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability for Social Security is 6.2 percent of wages paid.

8. RISK MANAGEMENT

A. Comprehensive

The District has obtained commercial insurance for the following risks:

- Property;
- General Liability;
- Crime;
- Inland Marine;
- Automobile;
- Ohio School Plan / Education Liability; and
- Commercial Blanket Coverage.

B. Workers' Compensation

The 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.

C. Health Benefits

The District also provides employee health care benefits through the San-Ott School Employees Welfare Benefit Association. The San-Ott School Employees Welfare Benefit Association is a shared risk pool, with participants from Sandusky and Ottawa counties. The Association is

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by writing to The San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

9. STATE SCHOOL FUNDING DECISION

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

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

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

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

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

10. STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis.

During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Balance July 01, 2001	(\$28,812)	
Required Set-Aside	12,238	\$12,238
Offset Credits		(200,000)
Qualifying Expenditures	(20,460)	
Balance June 30, 2002	(\$37,034)	(\$187,762)
Carried Forward to FY 2003	(\$37,034)	

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve
Balance July 01, 2000	(\$17,568)		\$19,000
Required Set-Aside	31,521	\$31,521	
Reduction of Budget Stabilization			
Set-Aside in accordance with S.B. 345			(19,000)
Offset Credits		(219,603)	
Qualifying Expenditures	(42,765)		
Balance June 30, 2001	(\$28,812)	(\$188,082)	
Carried Forward to FY 2002	(\$28,812)		

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2002, the Board has not taken action to designate these funds for a specific use. All remaining monies previously reported in the budget stabilization reserve are now reported as part of the unreserved and undesignated fund balance in the general fund as of June 30, 2001. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

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

11. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



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

Put-in-Bay Local School District
Ottawa County
549 Catawba Avenue
P.O. Box 659
Put-in-Bay, Ohio 43456-0659

To the Board of Education:

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

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10162-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 19, 2002.

Internal Control Over Financial Reporting

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 19, 2002

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

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

FINDING NUMBER 2002-10162-001

Noncompliance Citation

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

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

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

**PUT-IN-BAY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10162-001	Ohio Administrative Code § 117-2-01 (New Section 117-2-03 (B)) - Failure to file GAAP report.	No	Not corrected. Reissued as finding number 2002-10162-001.
2000-10162-002	Ohio Revised Code § 5705.41(D) - Certification of funds	No	Partially corrected. Percentage of improper certification lower than prior audit. Reissued as a Management Letter comment.



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PUT-IN-BAY LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**