

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2012***

CONNIE HANGE, TREASURER



Dave Yost • Auditor of State

Board of Education
Black River Local School District
257A County Road 40
Sullivan, Ohio 44880

We have reviewed the *Independent Accountants' Report* of the Black River Local School District, Medina County, prepared by Julian & Grube, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Black River Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 5, 2013

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report

Black River Local School District
257A County Road 40
Sullivan, Ohio 44880

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Black River Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Black River Local 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2012, on our consideration of the Black River Local 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America requires this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Black River Local School District's basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of Federal Awards provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
December 29, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of the Black River Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets of governmental activities increased \$697,445 which represents a 10.78% increase from 2011.
- General revenues accounted for \$11,830,357 in revenue or 80.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,903,880 or 19.71% of total revenues of \$14,734,237.
- The District had \$14,036,792 in expenses related to governmental activities; only \$2,903,880 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,830,357 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$12,099,223 in revenues and \$11,500,381 in expenditures and other financing uses. During fiscal year 2012, the general fund's fund balance increased \$598,842 from a deficit of \$1,330,660 to a deficit of \$731,818.
- The bond retirement fund had \$465,502 in revenues and \$408,837 in expenditures. During fiscal year 2012, the bond retirement fund's fund balance increased \$56,665 from a balance of \$693,766 to a balance of \$750,431.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and the bond retirement fund are by far the most significant funds and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District perform financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation central, operation of non-instructional services, extracurricular activities, and food service operations and interest and fiscal charges.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the bond retirement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual basis of accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and Changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.

| | Net Assets | |
|--|------------------------------------|------------------------------------|
| | Governmental Activities 2012 | Governmental Activities 2011 |
| <u>Assets</u> | | |
| Current and other assets | \$ 5,901,745 | \$ 6,076,859 |
| Capital assets, net | <u>9,516,537</u> | <u>10,039,879</u> |
| Total assets | <u>15,418,282</u> | <u>16,116,738</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 4,861,783 | 5,709,928 |
| Long-term liabilities | <u>3,390,387</u> | <u>3,938,143</u> |
| Total liabilities | <u>8,252,170</u> | <u>9,648,071</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 6,698,455 | 6,854,749 |
| Restricted | 1,196,305 | 1,425,412 |
| Unrestricted (deficit) | <u>(728,648)</u> | <u>(1,811,494)</u> |
| Total net assets | <u>\$ 7,166,112</u> | <u>\$ 6,468,667</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$7,166,112.

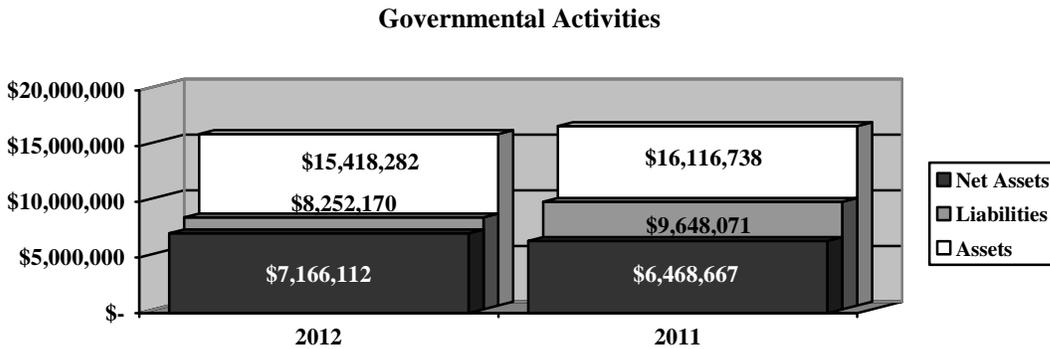
**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

At fiscal year-end, capital assets represented 61.72% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$6,698,455. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,196,305, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of \$728,648.

The graph below presents the District's governmental assets, liabilities and net assets at June 30, 2012 and June 30, 2011.



The table below shows the change in net assets for fiscal years 2012 and 2011. Shared sales taxes received in 2011, previously reported as capital grants and contributions, have been reclassified to general revenues to conform to current year presentation of these revenues.

| | Change in Net Assets | |
|------------------------------------|------------------------------------|--|
| | Governmental Activities 2012 | Restated Governmental Activities 2011 |
| <u>Revenues</u> | | |
| <u>Program revenues:</u> | | |
| Charges for services and sales | \$ 922,146 | \$ 765,030 |
| Operating grants and contributions | 1,981,734 | 2,669,677 |
| <u>General revenues:</u> | | |
| Property taxes | 4,259,037 | 3,888,400 |
| Grants and entitlements | 7,262,607 | 7,482,745 |
| Shared sales taxes | 280,212 | 216,742 |
| Investment earnings | 13,447 | 11,274 |
| Other | 15,054 | 7,915 |
| Total revenues | <u>14,734,237</u> | <u>15,041,783</u> |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Change in Net Assets | |
|---|-----------------------------|---------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| | <u>2012</u> | <u>2011</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 6,413,793 | \$ 7,164,353 |
| Special | 1,710,705 | 1,802,383 |
| Vocational | 186,094 | 153,003 |
| Other | 41,034 | 1,966 |
| Support services: | | |
| Pupil | 552,188 | 638,136 |
| Instructional staff | 714,867 | 812,810 |
| Board of education | 50,890 | 33,562 |
| Administration | 1,053,824 | 1,043,698 |
| Fiscal | 388,841 | 322,750 |
| Business | 22,579 | 31,838 |
| Operations and maintenance | 889,956 | 1,015,419 |
| Pupil transportation | 932,183 | 1,016,133 |
| Central | 48,334 | 60,070 |
| Operations of non-instructional services: | | |
| Food service operations | 413,245 | 410,783 |
| Other non-instructional services | 11,082 | 2,108 |
| Extracurricular activities | 505,994 | 568,846 |
| Interest and fiscal charges | <u>101,183</u> | <u>152,544</u> |
| Total expenses | <u>14,036,792</u> | <u>15,230,402</u> |
| Change in net assets | 697,445 | (188,619) |
| Net assets at beginning of year | <u>6,468,667</u> | <u>6,657,286</u> |
| Net assets at end of year | <u>\$ 7,166,112</u> | <u>\$ 6,468,667</u> |

Governmental Activities

Net assets of the District's governmental activities increased \$697,445. Total governmental expenses of \$14,036,792 were offset by program revenues of \$2,903,880 and general revenues of \$11,830,357. Program revenues supported 20.69% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 78.20% of total governmental revenue.

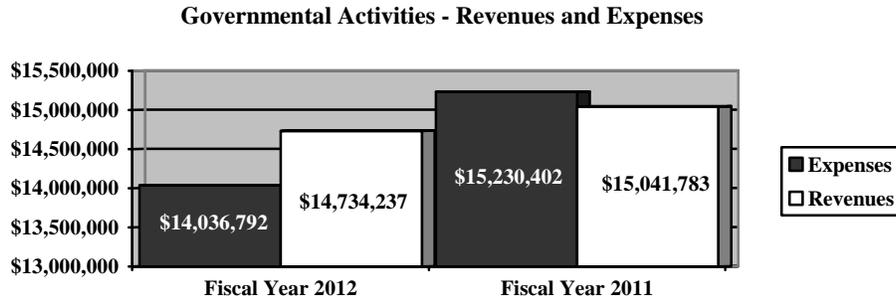
Operating grants and contributions program revenues decreased 25.77%, primarily due to the reduction in federal funding from education jobs, IDEA Part-B special education and State fiscal stabilization grants, the revenues of which decreased \$371,444, 150,244 and \$598,774, respectively, during fiscal year 2012; in the governmental activities, these grants were recognized as revenue in the year in which the District was granted funding, while on the fund financial statements the District did not recognize revenue until grant proceeds were received or available for spending.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,351,626 or 59.50% of total governmental expenses for fiscal year 2012.

The graph below presents the District's governmental revenues and expenses for fiscal years 2012 and 2011.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by taxes and unrestricted grants and entitlements. The net cost of services for fiscal year 2011 has been restated to exclude offsets from shared sales tax general revenues, classified as capital grants and contributions program revenues in the prior year.

| | Governmental Activities | | | |
|---|--------------------------------|------------------------------|--------------------------------|---------------------------------------|
| | Total Cost of Services 2012 | Net Cost of Services 2012 | Total Cost of Services 2011 | Restated Net Cost of Services 2011 |
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 6,413,793 | \$ 6,028,257 | \$ 7,164,353 | \$ 6,613,439 |
| Special | 1,710,705 | 344,350 | 1,802,383 | 532,682 |
| Vocational | 186,094 | 165,762 | 153,003 | 132,693 |
| Other | 41,034 | 1,898 | 1,966 | 452 |
| Support services: | | | | |
| Pupil | 552,188 | 550,195 | 638,136 | 546,387 |
| Instructional staff | 714,867 | 511,061 | 812,810 | 217,523 |
| Board of education | 50,890 | 48,440 | 33,562 | 31,159 |
| Administration | 1,053,824 | 1,042,464 | 1,043,698 | 988,272 |
| Fiscal | 388,841 | 388,782 | 322,750 | 322,750 |
| Business | 22,579 | 22,579 | 31,838 | 31,838 |
| Operations and maintenance | 889,956 | 855,785 | 1,015,419 | 1,002,701 |
| Pupil transportation | 932,183 | 877,398 | 1,016,133 | 932,235 |
| Central | 48,334 | 42,934 | 60,070 | (3,470) |
| Operations of non-instructional services: | | | | |
| Food service operations | 413,245 | 9,724 | 410,783 | (13,077) |
| Other non-instructional services | 11,082 | 10,938 | 2,108 | 2,108 |
| Extracurricular activities | 505,994 | 131,162 | 568,846 | 305,459 |
| Interest and fiscal charges | 101,183 | 101,183 | 152,544 | 152,544 |
| Total expenses | \$ 14,036,792 | \$ 11,132,912 | \$ 15,230,402 | \$ 11,795,695 |

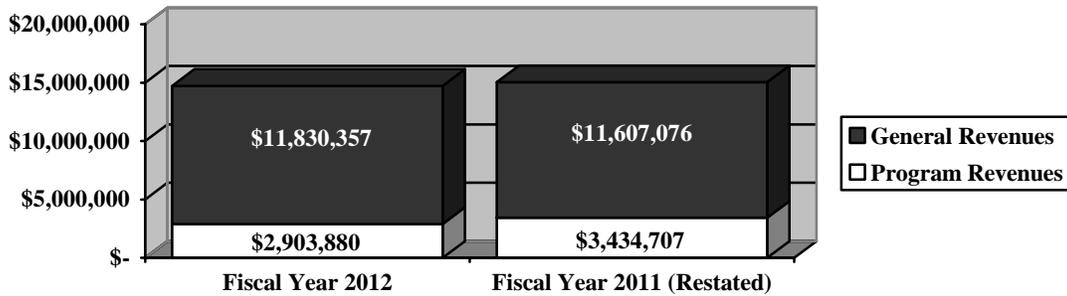
**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The dependence upon tax and other general revenues for governmental activities is apparent, 78.31% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.31%. The District's taxpayers and grants and entitlements are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011. Fiscal year 2011 revenues have been restated to classify shared sales taxes as general revenue to conform to fiscal year 2012 presentation.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds, as presented on the balance sheet on page 15, reported a combined fund balance of \$276,955, which is higher than last year's deficit balance of \$561,205. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and June 30, 2011.

| | Fund Balance (Deficit) <u>June 30, 2012</u> | Fund Balance (Deficit) <u>June 30, 2011</u> | <u>Increase</u> |
|--------------------|---|---|-------------------|
| General | \$ (731,818) | \$ (1,330,660) | \$ 598,842 |
| Bond retirement | 750,431 | 693,766 | 56,665 |
| Other governmental | <u>258,342</u> | <u>75,689</u> | <u>182,653</u> |
| Total | <u>\$ 276,955</u> | <u>\$ (561,205)</u> | <u>\$ 838,160</u> |

General Fund

The District's general fund balance increased \$598,842 during fiscal year 2012. Tuition revenue in the general fund increased \$138,968, or 87.97%, due to increased open enrollment and kindergarten tuition received during the year. Earnings on investments increased 23.48% during the year due to higher interest earned on the District's depository accounts. Other revenues increased \$83,106, or 25.95%, due to higher extracurricular and classroom fees received from the District's students, while intergovernmental revenues, including State foundation funding, remained consistent with 2011.

Instruction, support services, and extracurricular expenditures in the general fund decreased 11.04%, 4.64%, and 25.95% respectively, due to cost cutting measures implemented to improve the District's financial condition. These reductions primarily affected employees' salaries. Operation of non-instructional services and debt service expenditures remained consistent with fiscal year 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | 2012 Amount | 2011 Amount | Increase (Decrease) | Percentage Change |
|---|----------------------|----------------------|------------------------|----------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 3,634,418 | \$ 3,810,096 | \$ (175,678) | (4.61) |
| Tuition | 296,934 | 157,966 | 138,968 | 87.97 |
| Earnings on investments | 13,447 | 10,890 | 2,557 | 23.48 |
| Intergovernmental | 7,751,002 | 7,869,491 | (118,489) | (1.51) |
| Other revenues | 403,422 | 320,316 | 83,106 | 25.95 |
| Total | <u>\$ 12,099,223</u> | <u>\$ 12,168,759</u> | <u>\$ (69,536)</u> | (0.57) |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 7,278,150 | \$ 8,181,448 | \$ (903,298) | (11.04) |
| Support services | 3,720,343 | 3,901,202 | (180,859) | (4.64) |
| Operation of non-instructional services | 3,033 | 2,108 | 925 | 43.88 |
| Extracurricular activities | 305,986 | 413,226 | (107,240) | (25.95) |
| Debt service | 32,610 | 32,611 | (1) | (0.00) |
| Total | <u>\$ 11,340,122</u> | <u>\$ 12,530,595</u> | <u>\$ (1,190,473)</u> | (9.50) |

Bond Retirement Fund

The bond retirement fund had \$465,502 in revenues and \$408,837 in expenditures. During fiscal year 2012, the bond retirement fund's fund balance increased \$56,665 from a balance of \$693,766 to a balance of \$750,431.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$12,179,881 and were increased to \$12,331,614 in the final budget. Actual revenues and other financing sources were \$12,104,319, \$227,295 lower than final budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) were \$11,859,172 and \$12,340,119, respectively. Actual budgetary basis expenditures and other financing uses for fiscal year 2012 were equal to the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$9,516,537 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment and vehicles. This entire amount is reported in governmental activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table that follows shows June 30, 2012 balances compared to June 30, 2011. Balances as of June 30, 2011 have been adjusted to reflect the reclassification of certain assets and accumulated depreciation balances among the District's asset classes.

Capital Assets, Net of Depreciation

| | Governmental Activities | |
|-----------------------------------|-------------------------|---------------|
| | June 30, 2012 | June 30, 2011 |
| Land | \$ 437,361 | \$ 437,361 |
| Land improvements | 404,049 | 447,124 |
| Buildings and improvements | 8,168,113 | 8,489,223 |
| Furniture, fixtures and equipment | 219,834 | 307,369 |
| Vehicles | 287,180 | 358,802 |
| Total | \$ 9,516,537 | \$ 10,039,879 |

The overall decrease in capital assets of \$523,342 is due to depreciation expense of \$917,503 and disposals of \$20,957, net of accumulated depreciation, exceeding additions of \$415,118.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2012, the District had \$2,820,000 in general obligation bonds and \$11,170 in capital lease obligations outstanding. Of this total, \$331,170 is due within one year and \$2,500,000 is due in greater than one year.

The following table summarizes bonds and lease obligations outstanding at June 30, 2012 and June 30, 2011.

Outstanding Debt, at Year End

| | Governmental Activities 2012 | Governmental Activities 2011 |
|-----------------------------|------------------------------------|------------------------------------|
| | | |
| Series 2011 refunding bonds | \$ 2,820,000 | \$ 3,130,000 |
| Capital lease obligation | 11,170 | 55,130 |
| Total | \$ 2,831,170 | \$ 3,185,130 |

The series 2011 school improvement refunding bonds are scheduled to mature in fiscal year 2020, while the entire balance of capital lease obligations is due during fiscal year 2013. Payments on the District's capital lease obligations are made from the general fund, while interest and principal for the District's refunding bonds are paid from the bond retirement fund.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Current Financial Related Activities

Funding

Black River Local School District is a rural school district that encompasses 125 square miles in southwestern Medina, southern Lorain and northern Ashland counties. The State Foundation Formula is the primary funding source of education to the District and represents approximately 65% of revenue. This funding calculation is affected by local property valuation changes and as valuations increase, the state funding is decreased. From 1997 to 2008 local property valuations increased 99% or \$95 million, from \$96 million to \$191 million. In 2009 local property valuations started to decrease and, while not a significant decrease in that particular year, it is anticipated that values will continue to decrease over the next several years. Another significant factor in this calculation is student enrollment, which increased 69% or 716 students, from 1,033 students in fiscal year 1998 to 1,749 students in fiscal year 2009. Unfortunately, as with property values, student enrollment has been declining and fell to 1,572 students in 2010. The general economic down turn has negatively impacted the district as well. Decreasing revenues, property values and student numbers coupled with increasing expenses has challenged the district financially. As the State of Ohio struggles to balance their budget, the outlook for public education is grim. Voters last passed a new operating revenue levy in 1997 and failed to pass any new issues since.

Approximately 78% of the general fund budget is expended for employee wages and fringe benefits. These costs, including health benefits, have been increasing at a rate almost double to that of recent revenue growth. As expenditures continue to increase at rates exceeding revenue growth, the District is challenged to monitor its budget so as to continue to strive for academic excellence while remaining financially sound. The State has cut funding to schools as legislators continue to struggle to balance that budget. At the same time, The Governor's Blue Ribbon Task Force on Financing Student Success has yet to provide any solutions. Forecasting beyond one year is uncertain at best. The district has made significant spending cuts in the past two years primarily through the implementation of a reduction in force. With no additional revenue expected, the district will reduce staff further as well as make significant cuts in school programs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Connie I. Hange, Treasurer, Black River Local School District, 257-A County Road 40, Sullivan, Ohio 44880.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and investments | \$ 1,024,624 |
| Receivables: | |
| Property taxes | 4,432,083 |
| Shared sales taxes | 107,067 |
| Intergovernmental | 285,685 |
| Prepayments | 33,273 |
| Materials and supplies inventory | 5,925 |
| Unamortized bond issuance costs | 13,088 |
| Capital assets: | |
| Land | 437,361 |
| Depreciable capital assets, net. | 9,079,176 |
| Capital assets, net | <u>9,516,537</u> |
| Total assets. | <u>15,418,282</u> |
| Liabilities: | |
| Accounts payable. | 91,382 |
| Accrued wages and benefits | 758,778 |
| Pension obligation payable | 407,458 |
| Intergovernmental payable | 93,745 |
| Unearned revenue. | 3,503,605 |
| Accrued interest payable | 6,815 |
| Long-term liabilities: | |
| Due within one year. | 559,680 |
| Due in more than one year | 2,830,707 |
| Total liabilities | <u>8,252,170</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 6,698,455 |
| Restricted for: | |
| Capital projects | 303,275 |
| Debt service. | 777,074 |
| Locally funded programs | 7,111 |
| Federally funded programs | 108,845 |
| Unrestricted (deficit) | <u>(728,648)</u> |
| Total net assets | <u>\$ 7,166,112</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Expenses | Program Revenues | | Net (Expense) |
|--|----------------------|--------------------------------|------------------------------------|-----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 6,413,793 | \$ 352,820 | \$ 32,716 | \$ (6,028,257) |
| Special | 1,710,705 | 22,307 | 1,344,048 | (344,350) |
| Vocational | 186,094 | - | 20,332 | (165,762) |
| Other | 41,034 | - | 39,136 | (1,898) |
| Support services: | | | | |
| Pupil | 552,188 | - | 1,993 | (550,195) |
| Instructional staff | 714,867 | - | 203,806 | (511,061) |
| Board of education | 50,890 | - | 2,450 | (48,440) |
| Administration | 1,053,824 | 20 | 11,340 | (1,042,464) |
| Fiscal | 388,841 | 57 | 2 | (388,782) |
| Business | 22,579 | - | - | (22,579) |
| Operations and maintenance | 889,956 | 16,314 | 17,857 | (855,785) |
| Pupil transportation | 932,183 | 11,528 | 43,257 | (877,398) |
| Central | 48,334 | - | 5,400 | (42,934) |
| Operation of non-instructional services: | | | | |
| Food service operations | 413,245 | 149,196 | 254,325 | (9,724) |
| Other non-instructional services | 11,082 | 140 | 4 | (10,938) |
| Extracurricular activities | 505,994 | 369,764 | 5,068 | (131,162) |
| Interest and fiscal charges | 101,183 | - | - | (101,183) |
| Totals | <u>\$ 14,036,792</u> | <u>\$ 922,146</u> | <u>\$ 1,981,734</u> | <u>(11,132,912)</u> |

General Revenues:

| | |
|--|---------------------|
| Property taxes levied for: | |
| General purposes | 3,845,651 |
| Debt service | 413,386 |
| Grants and entitlements not restricted | |
| to specific programs | 7,262,607 |
| Shared sales taxes | 280,212 |
| Investment earnings | 13,447 |
| Miscellaneous | 15,054 |
| Total general revenues | <u>11,830,357</u> |
| Change in net assets | 697,445 |
| Net assets at beginning of year | <u>6,468,667</u> |
| Net assets at end of year | <u>\$ 7,166,112</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and investments | \$ 81,131 | \$ 697,950 | \$ 245,543 | \$ 1,024,624 |
| Receivables: | | | | |
| Property taxes | 3,995,024 | 437,059 | - | 4,432,083 |
| Interfund loans | 15,099 | - | - | 15,099 |
| Shared sales taxes | - | - | 107,067 | 107,067 |
| Intergovernmental | 18,900 | - | 266,785 | 285,685 |
| Prepayments | 33,273 | - | - | 33,273 |
| Materials and supplies inventory | - | - | 5,925 | 5,925 |
| Total assets | <u>\$ 4,143,427</u> | <u>\$ 1,135,009</u> | <u>\$ 625,320</u> | <u>\$ 5,903,756</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 75,163 | \$ - | \$ 16,219 | \$ 91,382 |
| Accrued wages and benefits | 638,125 | - | 120,653 | 758,778 |
| Compensated absences payable | 160,922 | - | - | 160,922 |
| Interfund loans payable | - | - | 15,099 | 15,099 |
| Intergovernmental payable | 86,696 | - | 7,049 | 93,745 |
| Unearned revenue | 3,152,485 | 351,120 | - | 3,503,605 |
| Deferred revenue | 415,120 | 33,458 | 147,234 | 595,812 |
| Pension obligation payable | 346,734 | - | 60,724 | 407,458 |
| Total liabilities | <u>4,875,245</u> | <u>384,578</u> | <u>366,978</u> | <u>5,626,801</u> |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Materials and supplies inventory | - | - | 5,925 | 5,925 |
| Prepayments | 33,273 | - | - | 33,273 |
| Unclaimed monies | 2,155 | - | - | 2,155 |
| Restricted: | | | | |
| Debt service | - | 750,431 | - | 750,431 |
| Capital improvements | - | - | 200,681 | 200,681 |
| Targeted academic assistance | - | - | 41,081 | 41,081 |
| Other purposes | - | - | 8,199 | 8,199 |
| Committed: | | | | |
| Capital improvements | - | - | 46,935 | 46,935 |
| Unassigned (deficit) | (767,246) | - | (44,479) | (811,725) |
| Total fund balances (deficit) | <u>(731,818)</u> | <u>750,431</u> | <u>258,342</u> | <u>276,955</u> |
| Total liabilities and fund balances | <u>\$ 4,143,427</u> | <u>\$ 1,135,009</u> | <u>\$ 625,320</u> | <u>\$ 5,903,756</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

| | | | |
|--|----|-------------|-------------|
| Total governmental fund balances | | \$ | 276,955 |
| <i>Amounts reported for governmental activities on the statement of net assets are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 9,516,537 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Property taxes receivable | \$ | 436,290 | |
| Shared sales taxes receivable | | 55,659 | |
| Intergovernmental receivable | | 103,863 | |
| Total | | 103,863 | 595,812 |
| Unamortized bond issuance costs are not recognized in the funds. | | | 13,088 |
| On the statement of net assets, interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due. | | | (6,815) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| General obligation bonds | | (2,820,000) | |
| Capital lease obligations | | (11,170) | |
| Compensated absences | | (398,295) | |
| Total | | (3,229,465) | (3,229,465) |
| Net assets of governmental activities | | \$ | 7,166,112 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------------|----------------------------|---|---|
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 3,634,418 | \$ 401,558 | \$ - | \$ 4,035,976 |
| Tuition | 296,934 | - | - | 296,934 |
| Transportation fees | - | - | 100 | 100 |
| Earnings on investments | 13,447 | - | - | 13,447 |
| Charges for services | - | - | 149,291 | 149,291 |
| Extracurricular | 294,934 | - | 87,253 | 382,187 |
| Classroom materials and fees | 77,566 | - | - | 77,566 |
| Rental income | 15,468 | - | - | 15,468 |
| Contributions and donations | 2,500 | - | 4,000 | 6,500 |
| Contract services | 600 | - | - | 600 |
| Other local revenues | 12,354 | - | 11,020 | 23,374 |
| Shared sales taxes | - | - | 224,553 | 224,553 |
| Intergovernmental - intermediate | - | - | 13,520 | 13,520 |
| Intergovernmental - State | 7,736,197 | 63,944 | 10,886 | 7,811,027 |
| Intergovernmental - federal | 14,805 | - | 1,817,932 | 1,832,737 |
| Total revenues | <u>12,099,223</u> | <u>465,502</u> | <u>2,318,555</u> | <u>14,883,280</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,255,507 | - | 132,868 | 6,388,375 |
| Special | 873,780 | - | 869,886 | 1,743,666 |
| Vocational | 148,323 | - | 25 | 148,348 |
| Other | 540 | - | 40,494 | 41,034 |
| Support services: | | | | |
| Pupil | 513,521 | - | 20,480 | 534,001 |
| Instructional staff | 264,111 | - | 443,624 | 707,735 |
| Board of education | 50,890 | - | - | 50,890 |
| Administration | 967,017 | - | 12,905 | 979,922 |
| Fiscal | 362,736 | 9,326 | 109 | 372,171 |
| Business | 22,579 | - | - | 22,579 |
| Operations and maintenance | 838,295 | - | 28,061 | 866,356 |
| Pupil transportation | 658,260 | - | 182,357 | 840,617 |
| Central | 42,934 | - | 5,400 | 48,334 |
| Operation of non-instructional services: | | | | |
| Food service operations | - | - | 395,959 | 395,959 |
| Other non-instructional services | 3,033 | - | 8,049 | 11,082 |
| Extracurricular activities | 305,986 | - | 155,944 | 461,930 |
| Debt service: | | | | |
| Principal retirement | 29,256 | 310,000 | - | 339,256 |
| Interest and fiscal charges | 3,354 | 89,511 | - | 92,865 |
| Total expenditures | <u>11,340,122</u> | <u>408,837</u> | <u>2,296,161</u> | <u>14,045,120</u> |
| Excess of revenues over expenditures | <u>759,101</u> | <u>56,665</u> | <u>22,394</u> | <u>838,160</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 160,259 | 160,259 |
| Transfers (out) | <u>(160,259)</u> | <u>-</u> | <u>-</u> | <u>(160,259)</u> |
| Total other financing sources (uses) | <u>(160,259)</u> | <u>-</u> | <u>160,259</u> | <u>-</u> |
| Net change in fund balances | 598,842 | 56,665 | 182,653 | 838,160 |
| Fund balances (deficit) at beginning of year | (1,330,660) | 693,766 | 75,689 | (561,205) |
| Fund balances (deficit) at end of year | <u>\$ (731,818)</u> | <u>\$ 750,431</u> | <u>\$ 258,342</u> | <u>\$ 276,955</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | | |
|---|------------|----------------|
| Net change in fund balances - total governmental funds | \$ | 838,160 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current period. | | |
| Capital asset additions | \$ 415,118 | |
| Current year depreciation | (917,503) | |
| Total | | (502,385) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | |
| | | (20,957) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Property taxes | 223,061 | |
| Shared sales taxes | 55,659 | |
| Intergovernmental | (427,763) | |
| Total | | (149,043) |
| Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were: | | |
| Bonds | 310,000 | |
| Capital leases | 29,256 | |
| Total | | 339,256 |
| Capital lease obligations forgiven during the year reduce long-term liabilities on the statement of net assets to the extent of outstanding principal on the lease. | | |
| | | 14,704 |
| Costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. | | |
| | | (1,765) |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | (6,553) |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | 186,028 |
| Change in net assets of governmental activities | \$ | 697,445 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 3,770,502 | \$ 3,817,473 | \$ 3,747,110 | \$ (70,363) |
| Tuition | 298,788 | 302,510 | 296,934 | (5,576) |
| Earnings on investments | 13,531 | 13,700 | 13,447 | (253) |
| Extracurricular | 166,252 | 168,324 | 165,221 | (3,103) |
| Classroom materials and fees | 78,536 | 79,515 | 78,049 | (1,466) |
| Rental income | 15,565 | 15,758 | 15,468 | (290) |
| Contributions and donations | 2,516 | 2,547 | 2,500 | (47) |
| Other local revenues | 5,653 | 5,724 | 5,619 | (105) |
| Intergovernmental - State | 7,784,491 | 7,881,467 | 7,736,197 | (145,270) |
| Total revenues | <u>12,135,834</u> | <u>12,287,018</u> | <u>12,060,545</u> | <u>(226,473)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,508,979 | 6,676,753 | 6,676,753 | - |
| Special | 945,325 | 969,705 | 969,705 | - |
| Vocational | 148,298 | 152,123 | 152,123 | - |
| Other | 1,140 | 1,169 | 1,169 | - |
| Support services: | | | | |
| Pupil | 538,214 | 552,094 | 552,094 | - |
| Instructional staff | 360,339 | 369,632 | 369,632 | - |
| Board of education | 35,964 | 36,892 | 36,892 | - |
| Administration | 959,345 | 984,086 | 984,086 | - |
| Fiscal | 379,648 | 389,439 | 389,439 | - |
| Business | 33,932 | 34,807 | 34,807 | - |
| Operations and maintenance | 881,960 | 904,542 | 904,542 | - |
| Pupil transportation | 816,312 | 837,364 | 837,364 | - |
| Central | 54,213 | 55,611 | 55,611 | - |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | 2,150 | 2,205 | 2,205 | - |
| Extracurricular activities | 186,178 | 190,979 | 190,979 | - |
| Total expenditures | <u>11,851,997</u> | <u>12,157,401</u> | <u>12,157,401</u> | <u>-</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>283,837</u> | <u>129,617</u> | <u>(96,856)</u> | <u>(226,473)</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 37,104 | 37,566 | 36,874 | (692) |
| Refund of prior year's receipts | (7,175) | (7,360) | (7,360) | - |
| Transfers (out) | - | (160,259) | (160,259) | - |
| Advances (out) | - | (15,099) | (15,099) | - |
| Sale of capital assets | 6,943 | 7,030 | 6,900 | (130) |
| Total other financing sources (uses) | <u>36,872</u> | <u>(138,122)</u> | <u>(138,944)</u> | <u>(822)</u> |
| Net change in fund balance | 320,709 | (8,505) | (235,800) | (227,295) |
| Fund balance (deficit) at beginning of year . . . | (143,116) | (143,116) | (143,116) | - |
| Prior year encumbrances appropriated | 157,951 | 157,951 | 157,951 | - |
| Fund balance (deficit) at end of year | <u>\$ 335,544</u> | <u>\$ 6,330</u> | <u>\$ (220,965)</u> | <u>\$ (227,295)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

| | <u>Private-Purpose Trust</u> | |
|--|----------------------------------|------------------|
| | <u>Scholarship</u> | <u>Agency</u> |
| Assets: | | |
| Equity in pooled cash and investments | \$ 38,848 | \$ 44,019 |
| Receivables: | | |
| Accrued interest. | 110 | - |
| Total assets. | <u>38,958</u> | <u>\$ 44,019</u> |
| Liabilities: | | |
| Intergovernmental payable | - | \$ 6 |
| Due to students. | - | 44,013 |
| Total liabilities | <u>-</u> | <u>\$ 44,019</u> |
| Net assets: | | |
| Held in trust for scholarships | <u>38,958</u> | |
| Total net assets | <u>\$ 38,958</u> | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest. | \$ 446 |
| Gifts and contributions. | 487 |
| Total additions. | 933 |
| Deductions: | |
| Scholarships awarded | 3,256 |
| Change in net assets. | (2,323) |
| Net assets at beginning of year | 41,281 |
| Net assets at end of year. | \$ 38,958 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Black River Local School District (the "District") is located in portions of Medina County, Ashland County and Lorain County in Northeast Ohio. The District includes all of the villages of Sullivan, Spencer, Homerville and portions of surrounding townships, covering approximately 125 square miles.

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District operates 1 comprehensive school, serving grades K through 8, and 1 high school. Including administrators, the District employs 62 non-certified and 99 certified full-time and part-time employees to provide services to approximately 1,438 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Medina County Career Center (MCCC)

The MCCC is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The MCCC accepts non-tuition students from the District as a member school district; however, it is considered a separate political subdivision and is not considered to be part of the District. The Board of Education of the MCCC consists of representatives from the Board's of each participating school district. Financial information can be obtained by contacting the Treasurer of the Medina County Career Center, 1101 West Liberty Street, Medina, Ohio 44256-3842.

The Tri-County Computer Service Association (TCCSA)

TCCSA is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

PUBLIC ENTITY RISK POOL

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District has no proprietary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for and report the accumulation of resources that are restricted for payment of general obligation bond and principal and interest.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal 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 are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2012 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Medina County Budget Commission for tax rate determination.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2012.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of budgetary control. Although the legal level of budgeting control was established at the fund level of expenditures for the general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditure.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2012. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2012, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$13,447, which includes \$12,451 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District’s investment account at year end is provided in Note 4.

G. Inventory

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government wide and fund financial statements.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|-----------------------------------|--|
| Land improvements | 20 years |
| Buildings and improvements | 20 - 50 years |
| Furniture, fixtures and equipment | 5 - 20 years |
| Vehicles | 6- 10 years |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from interfund loans are classified as "interfund loans receivable/payable". These amounts are eliminated on the governmental-wide statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, age fifty seven or greater with two years of service, age fifty two or greater with seven years of service or any age with twenty seven years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2012, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, a nonspendable fund balance equal to the carrying value of the asset is recorded on the fund financial statements.

O. Unamortized Bond Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method. Unamortized bond issuance costs are recorded as a separate line item on the statement of net assets. On the governmental fund financial statements, bond issue costs are recorded as expenditures when incurred.

P. Estimates

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

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

| <u>Major governmental fund</u> | <u>Deficit</u> |
|---------------------------------------|----------------|
| General fund | \$ 731,818 |
| <u>Nonmajor governmental funds</u> | |
| Food service | 6,951 |
| District managed student activity | 6,704 |
| Education jobs | 19,352 |
| Special Education IDEA Part-B | 3,367 |
| Title II-A, improving teacher quality | 2,180 |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 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 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 of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

A. Cash on Hand

At fiscal year end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$1,107,366. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$919,102 of the District's bank balance of \$1,202,827 was exposed to custodial risk as discussed below, while \$283,725 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

| | |
|---|---------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 1,107,366 |
| Cash on hand | 125 |
| Total | <u>\$ 1,107,491</u> |
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 1,024,624 |
| Private-purpose trust funds | 38,848 |
| Agency fund | 44,019 |
| Total | <u>\$ 1,107,491</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2012, as reported on the fund financial statements, consist of the following interfund loans receivable and payable:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|------------------|
| General fund | Nonmajor governmental funds | <u>\$ 15,099</u> |

The primary purpose of the interfund balances is to cover negative cash balances at fiscal year-end. The interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

- B. Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

| <u>Transfers from the general fund to:</u> | <u>Amount</u> |
|--|-------------------|
| Nonmajor governmental funds | <u>\$ 160,259</u> |

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Ashland, Lorain, and Medina Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$439,707 in the general fund and \$52,481 in the bond retirement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$552,399 in the general fund and \$73,862 in the bond retirement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2012 taxes were collected are:

| | 2011 Second Half Collections | | 2012 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 180,426,060 | 93.86 | \$ 175,902,400 | 93.57 |
| Public utility personal | 11,803,690 | 6.14 | 12,078,930 | 6.43 |
| Total | <u>\$ 192,229,750</u> | <u>100.00</u> | <u>\$ 187,981,330</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$46.00 | | \$46.00 | |

NOTE 7 - SHARED SALES TAX REVENUE

During 2007, the voters of Medina County passed an additional one-half percentage tax to be used for capital improvements at all school districts within the County. Collection began in October 2007. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The County then allocates this tax to the school districts within the County based on the student enrollment number. During fiscal year 2012, the District recorded shared sales tax revenue of \$224,553 in the capital grants fund (a nonmajor governmental fund).

NOTE 8 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, intergovernmental grants and entitlements, and shared sales taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

| | |
|---------------------------------|---------------------|
| Governmental activities: | |
| Property taxes | \$ 4,432,083 |
| Shared sales taxes | 107,067 |
| Intergovernmental | <u>285,685</u> |
| Total | <u>\$ 4,824,835</u> |

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for fiscal year 2012 is as follows:

| | Restated Balance June 30, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---|--------------------------------------|---------------------|--------------------|--------------------------|
| Governmental activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 437,361 | \$ - | \$ - | \$ 437,361 |
| Total capital assets, not being depreciated | <u>437,361</u> | <u>-</u> | <u>-</u> | <u>437,361</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 978,723 | 415,118 | - | 1,393,841 |
| Building and improvements | 13,416,118 | - | - | 13,416,118 |
| Furniture, fixtures and equipment | 1,315,804 | - | (52,394) | 1,263,410 |
| Vehicles | 1,003,494 | - | - | 1,003,494 |
| Total capital assets, being depreciated | <u>16,714,139</u> | <u>415,118</u> | <u>(52,394)</u> | <u>17,076,863</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (531,599) | (458,193) | - | (989,792) |
| Building and improvements | (4,926,895) | (321,110) | - | (5,248,005) |
| Furniture, fixtures and equipment | (1,008,435) | (66,578) | 31,437 | (1,043,576) |
| Vehicles | (644,692) | (71,622) | - | (716,314) |
| Total accumulated depreciation | <u>(7,111,621)</u> | <u>(917,503)</u> | <u>31,437</u> | <u>(7,997,687)</u> |
| Governmental activities capital assets, net | <u>\$ 10,039,879</u> | <u>\$ (502,385)</u> | <u>\$ (20,957)</u> | <u>\$ 9,516,537</u> |

Certain capital asset and accumulated depreciation balances have been reclassified among the District's asset classes. These reclassifications are reflected in the restated beginning balance of capital assets, above, and had no effect on net assets as previously reported.

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 375,447 |
| Special | 48,550 |
| Vocational | 85,382 |
| <u>Support services:</u> | |
| Pupil | 36,412 |
| Instructional staff | 13,635 |
| Administration | 158,924 |
| Fiscal | 10,479 |
| Operations and maintenance | 30,288 |
| Pupil transportation | 83,426 |
| <u>Operation of non-instructional services:</u> | |
| Food service operations | 30,896 |
| Extracurricular activities | <u>44,064</u> |
| Total depreciation expense | <u>\$ 917,503</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In previous years the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as general fund expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Principal payments in fiscal year 2012 totaled \$29,256 and were paid by the general fund. In addition to the amount of principal retired, the District disposed of a capital lease with an outstanding principal balance of \$14,704.

Capital assets consisting of equipment have been capitalized in the amount of \$49,254. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2012, was \$24,627, leaving a current book value of \$24,627.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|------------------|
| 2013 | \$ 11,507 |
| Total minimum lease payments | 11,507 |
| Less: amount representing interest | <u>(337)</u> |
| Total | <u>\$ 11,170</u> |

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

| | Balance Outstanding 6/30/11 | Additions | Reductions | Balance Outstanding 6/30/12 | Amounts Due in One Year |
|---------------------------------|-----------------------------------|------------------|---------------------|-----------------------------------|-------------------------------|
| Governmental activities: | | | | | |
| Series 2011 Refunding Bonds: | | | | | |
| Current Interest Bonds | \$ 3,130,000 | \$ - | \$ (310,000) | \$ 2,820,000 | \$ 320,000 |
| Capital Lease Obligation | 55,130 | - | (43,960) | 11,170 | 11,170 |
| Compensated Absences | <u>753,013</u> | <u>30,537</u> | <u>(224,333)</u> | <u>559,217</u> | <u>228,510</u> |
| Total governmental activities | <u>\$ 3,938,143</u> | <u>\$ 30,537</u> | <u>\$ (578,293)</u> | <u>\$ 3,390,387</u> | <u>\$ 559,680</u> |

Capital lease obligations: See Note 10 for detail on the District's capital lease obligations.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salary is paid which, for the District, is primarily the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Series 2011 School Improvement Refunding Bonds: On April 1, 2001, the District issued general obligation bonds (Series 2001 School Improvement Refunding Bonds) to advance refund the callable portion of the previously issued Series 1994 School Improvement General Obligation Bonds (principal \$4,780,000; interest rate ranging from 4.35% to 4.90%; stated maturity December 1, 2019). \$5,225,581 of the issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt, which was called for redemption on December 1, 2004, at a cost of 102% of par value, plus accrued interest. This refunded debt is considered defeased (in-substance).

On May 30, 2011, the District issued par value \$3,130,000 general obligation bonds (Series 2011 School Improvement Refunding Bonds) to refund the callable Series 2001 School Improvement Refunding Bond. This refunded debt is considered defeased (in-substance). The interest rate on the current interest bonds is 3.00%. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated on the issue is December 1, 2019.

Principal and interest requirements to retire Series 2011 School Improvement Refunding Bonds outstanding at June 30, 2012 are as follows:

| Fiscal Year Ending | Current Interest Bonds | | |
|-----------------------|------------------------|------------|--------------|
| June 30 | Principal | Interest | Total |
| 2013 | \$ 320,000 | \$ 79,800 | \$ 399,800 |
| 2014 | 325,000 | 70,125 | 395,125 |
| 2015 | 335,000 | 60,225 | 395,225 |
| 2016 | 345,000 | 50,025 | 395,025 |
| 2017 | 355,000 | 39,525 | 394,525 |
| 2018 - 2020 | 1,140,000 | 51,900 | 1,191,900 |
| Total | \$ 2,820,000 | \$ 351,600 | \$ 3,171,600 |

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$14,848,751 (including available funds of \$750,431) and an unvoted debt margin of \$187,981.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation credit is earned one year and taken in the next. An employee may elect to carry over credit from one year to the next but may not schedule or accumulate more than five (5) weeks in any one (1) calendar year. Accumulated unused sick time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of seventy-two days for both certified and classified employees with ten (10) or more years of service with the District. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

B. Health Insurance

The District is a member of the Stark County Schools Council of Governments Health Benefit Plan (the "Council"); a public entity risk pool that currently operates as a common risk management and health insurance program for member school districts. The District pays a monthly premium to the pool for health, prescription drug, and dental coverage. The pool agreement provides that the Council will be self-sustaining through member premiums, and the pool has purchased stop-loss coverage from private insurance carriers to cover claims in excess of \$200,000 for any employee in a year or to cover aggregate claims in excess of 120% of the prior year's total claims. Individual coverage per person cannot exceed \$1,000,000 in claims during his or her lifetime.

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2012, the District purchased from various insurance carriers general liability insurance, which carried a \$2 million per occurrence/\$4 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and are traditionally funded.

Settled claims have not exceeded any of the above coverages in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2011.

B. Workers' Compensation

The District pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that the State calculates. The District does not utilize a third party administrator for premium remittance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$182,796, \$190,466 and \$220,714, respectively; 37.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

C. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - PENSION PLANS - (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$817,835, \$836,840 and \$901,811, respectively; 72.20 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$20,574 made by the District and \$14,695 made by the plan members.

D. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$31,768, \$42,127 and \$34,833, respectively; 37.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$10,795, \$12,257 and \$13,125, respectively; 37.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$62,910, \$64,372 and \$69,370, respectively; 72.20 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to an assigned or committed portion of available fund balance for outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General fund</u> |
|---|---------------------|
| Budget basis | \$ (235,800) |
| Net adjustment for revenue accruals | (91,635) |
| Net adjustment for expenditure accruals | 701,273 |
| Net adjustment for other sources/uses | (21,315) |
| Funds budgeted elsewhere | 5,025 |
| Adjustment for encumbrances | 241,294 |
| GAAP basis | \$ 598,842 |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. These include the public school support fund and the community services fund. In addition, the unclaimed monies fund is legally budgeted as a separate private-purpose trust fund but is considered part of the general fund on a GAAP basis.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 17 - CONTINGENCIES

A. Grants and Enrollment

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 18 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 - SET-ASIDES - (Continued)

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2011 | \$ - |
| Current year set-aside requirement | 255,163 |
| Contributions in excess of the current fiscal year set-aside requirement | - |
| Current year qualifying expenditures | (169,869) |
| Excess qualified expenditures from prior years | - |
| Current year offsets | (85,294) |
| Waiver granted by ODE | - |
| Prior year offset from bond proceeds | - |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2013 | <u>\$ -</u> |
| Set-aside balance June 30, 2012 | <u>\$ -</u> |

During fiscal year 1994 the District issued \$7,325,000 in capital related general obligation bonds. These proceeds may be used to reduce the capital acquisition set-aside to zero in future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods. As of June 30, 2012, the entire balance of \$7,325,000 was available to be used as offsets in future years.

NOTE 19 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. To the extent of available balances, encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-End Encumbrances</u> |
|--------------------|----------------------------------|
| General fund | \$ 128,550 |
| Other governmental | <u>78,286</u> |
| Total | <u>\$ 206,836</u> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 20 - FISCAL CAUTION

On February 8, 2011, the District was declared to be in a state of "Fiscal Caution" by the Auditor of State. In accordance with this law, within sixty days of the Auditor's declaration of fiscal caution, the Board of Education of the District had to prepare and submit to the Superintendent of Public Instruction a financial plan outlining the steps the Board will take to eliminate the District's current operating deficit and avoid future deficits. The plan was submitted on December 21, 2011.

NOTE 21 – SUBSEQUENT EVENT

The District placed a 5.8-mil emergency operating levy and a 1.8-mil permanent improvement levy before voters on November 6, 2012. The District was not successful in passing either levy.

SUPPLEMENTARY DATA

**BLACK RIVER LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | (A) PASS-THROUGH GRANT NUMBER | (B) CASH FEDERAL RECEIPTS | (B) CASH FEDERAL DISBURSEMENTS |
|--|----------------|--|------------------------------------|---|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| Child Nutrition Grant Cluster: | | | | |
| (D) (E) School Breakfast Program | 10.553 | 2012 | \$ 46,190 | \$ 46,190 |
| (D) (E) National School Lunch Program | 10.555 | 2012 | 186,476 | 186,476 |
| (C) (D) National School Lunch Program - Food Donation | 10.555 | 2012 | 23,829 | 23,829 |
| Total National School Lunch Program | | | <u>210,305</u> | <u>210,305</u> |
| Total U.S. Department of Agriculture and Child Nutrition Grant Cluster | | | <u>256,495</u> | <u>256,495</u> |
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| Title I Grant Cluster: | | | | |
| (F) Title I Grants to Local Educational Agencies | 84.010 | 2011 | 9,738 | 31,042 |
| (F) Title I Grants to Local Educational Agencies | 84.010 | 2012 | 518,413 | 527,984 |
| Total Title I Grants to Local Educational Agencies | | | <u>528,151</u> | <u>559,026</u> |
| (F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 2011 | 111,627 | 129,126 |
| Total Title I Grant Cluster | | | <u>639,778</u> | <u>688,152</u> |
| Special Education Grant Cluster: | | | | |
| (G) Special Education_Grants to States | 84.027 | 2012 | 286,997 | 290,364 |
| (G) Special Education_Preschool Grants | 84.173 | 2012 | 423 | 2,584 |
| Total Special Education Grant Cluster | | | <u>287,420</u> | <u>292,948</u> |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2011 | 671 | 1,108 |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2012 | 75,000 | 75,000 |
| Total Safe and Drug-Free Schools and Communities_State Grants | | | <u>75,671</u> | <u>76,108</u> |
| Improving Teacher Quality State Grants | 84.367 | 2011 | 62,794 | 48,390 |
| Improving Teacher Quality State Grants | 84.367 | 2012 | 48,204 | 47,614 |
| Total Improving Teacher Quality State Grants | | | <u>110,998</u> | <u>96,004</u> |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395A | 2012 | 2,450 | 2,450 |
| Education Jobs Fund | 84.410 | 2012 | 321,948 | 306,643 |
| Total U.S. Department of Education | | | <u>1,438,265</u> | <u>1,462,305</u> |
| Total Federal Financial Assistance | | | <u>\$ 1,694,760</u> | <u>\$ 1,718,800</u> |

Notes to the Schedule of Receipts and Expenditures of Federal Awards:

- (A) OAKS did not assign pass-through numbers for fiscal year 2012.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of breakfast and lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Title I Grant Cluster" in determining major programs.
- (G) Included as part of "Special Education Grant Cluster" in determining major programs.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards***

Black River Local School District
257A County Road 40
Sullivan, Ohio 44880

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise Black River Local School District's basic financial statements and have issued our report thereon dated December 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Black River Local School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Black River Local School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Black River Local School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Black River Local School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Board of Education
Black River Local School District

Compliance and Other Matters

As part of reasonably assuring whether the Black River Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Black River Local School District's management in a separate letter dated December 29, 2012.

We intend this report solely for the information and use of the management and Board of Education of the Black River Local School District, federal awarding agencies and pass-through entities, and others within the Black River Local School District. We intend it for no one other than these specified parties.

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

Julian & Grube, Inc.
December 29, 2012



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

Black River Local School District
257A County Road 40
Sullivan, Ohio 44880

To the Board of Education:

Compliance

We have audited the compliance of the Black River Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Black River Local School District's major federal programs for the fiscal year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the Black River Local School District's major federal programs. The Black River Local School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Black River Local School District's compliance based on our audit.

Our compliance audit followed with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Black River Local School District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Black River Local School District's compliance with these requirements.

In our opinion, the Black River Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The Black River Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Black River Local School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of Black River Local School District's internal control over compliance.

Board of Education
Black River Local School District

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management and Board of Education of the Black River Local School District, federal awarding agencies and pass-through entities, and others within the Black River Local School District. We intend it for no one other than these specified parties.



Julian & Grube, Inc.
December 29, 2012

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|---|---|
| <i>(d)(1)(i)</i> | <i>Type of Financial Statement Opinion</i> | Unqualified |
| <i>(d)(1)(ii)</i> | <i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(ii)</i> | <i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iii)</i> | <i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any material internal control weaknesses reported for major federal programs?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any significant deficiencies in internal control reported for major federal programs?</i> | No |
| <i>(d)(1)(v)</i> | <i>Type of Major Program's Compliance Opinion</i> | Unqualified |
| <i>(d)(1)(vi)</i> | <i>Are there any reportable findings under §.510(a)?</i> | No |
| <i>(d)(1)(vii)</i> | <i>Major Programs (listed):</i> | Title I Grant Cluster: Title I Grants to Local Educational Agencies, CFDA #84.010 and ARRA-Title I Grants to Local Educational Agencies, Recovery Act, CFDA #84.389 and Education Jobs Fund, CFDA #84.410 |
| <i>(d)(1)(viii)</i> | <i>Dollar Threshold: Type A/B Programs</i> | Type A: >\$300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | <i>Low Risk Auditee?</i> | No |

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|---|-------------------------|---|
| 2011-BRLSD-001 | Ohio Revised Code Section 5705.10 in part requires that on a cash basis, no fund shall have a negative fund balance during the fiscal year or at fiscal year end. | Partially | Repeated in Management Letter |
| 2011-BRLSD-002 | Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed estimated resources. | Yes | N/A |
| 2011-BRLSD-003 | Ohio Revised Code Section 5705.36 in part requires subdivisions to request increased amended certificates of estimated resources if the legislative authority intends to appropriate and expend excess revenue. | Yes | N/A |

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Dave Yost • Auditor of State

BLACK RIVER LOCAL SCHOOL DISTRICT

MEDINA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 19, 2013**