



**Auditor of State
Betty Montgomery**

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

South Point Local School District
Lawrence County
203 Park Avenue
South Point, Ohio 45680

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the South Point Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the South Point Local School District, Lawrence County, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Also, as mentioned in Note 3, during the year ended June 30, 2003, the School District adopted GASB Statements 37 and 38 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2004 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by 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. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 30, 2004

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The discussion and analysis of the South Point Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities increased \$1,028,824. The primary reasons for the increase are due to increased cash generated by additional tax and intergovernmental revenue during 2003, capital asset additions during 2003 and a reduction of debt due to principal payments being made during 2003. The fiscal health of the School District is very dependent upon the level of funding of the State School Foundation and the prudent fiscal management policies as set by the Board of Education.
- General revenues accounted for \$10,378,216 in revenue or 72% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,956,790 or 28% of total revenues of \$14,335,006.
- The School District had \$13,306,182 in expenses related to governmental activities; All of these expenses were offset by program specific charges for services, grants, contributions, and interest.
- The School District has one major fund; the General Fund. The General Fund had \$11,541,430 in revenues and \$10,671,819 in expenditures. The General Fund's balance increased \$869,611 due to tax and intergovernmental revenue increases which offset the increases in expenditures during 2003.

USING THIS ANNUAL FINANCIAL REPORT

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 South Point Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide 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 School District's most significant funds with all other non-major funds presented in total in one column.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's major governmental fund is the General Fund.

Governmental Funds Most of the School 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 fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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 financial statements.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$8,554,081	\$8,148,526
Capital Assets	4,750,823	4,600,262
Total Assets	<u>13,304,904</u>	<u>12,748,788</u>
Liabilities		
Long-term Liabilities	2,543,784	2,871,158
Other Liabilities	4,494,965	4,640,299
Total Liabilities	<u>7,038,749</u>	<u>7,511,457</u>
Net Assets		
Invested in Capital Assets, Net of Debt	4,351,335	4,020,262
Restricted	2,464,054	2,438,439
Unrestricted	<u>(549,234)</u>	<u>(1,221,370)</u>
Total Net Assets	<u>\$6,266,155</u>	<u>\$5,237,331</u>

Current and other assets increased by \$405,555 due to cash increases offset by reductions in intergovernmental receivables and property taxes receivable. Capital assets increased by \$150,561 due to capital additions of \$455,666 offset by depreciation expense of \$305,105. Long-term liabilities decreased by \$327,374 due to principal payments made during 2003.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year South Point Local has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities <u>2003</u>
Revenues	
Program Revenues	
Charges for Services	\$446,852
Operating Grants and Contributions	3,509,938
Total Program Revenues	<u>3,956,790</u>
General Revenues	
Property Taxes	2,576,501
Grants and Entitlements	7,604,425
Investment Earnings	33,305
Miscellaneous	163,985
Total General Revenues	<u>10,378,216</u>
Total Revenues	<u>14,335,006</u>
Program Expenses	
Instruction:	
Regular	5,594,182
Special	1,624,955
Vocational	7,059
Other	139,462
Support Services:	
Pupil	516,247
Instructional Staff	518,867
Board of Education	47,693
Administration	1,634,393
Fiscal	261,916
Operation and Maintenance of Plant	1,078,373
Pupil Transportation	708,905
Central	155,526
Operation of Non-Instructional Services	721,320
Extracurricular Activities	236,870
Interest and Fiscal Charges	60,414
Total Expenses	<u>13,306,182</u>
Increase in Net Assets	1,028,824
Net Assets at Beginning of Year	<u>5,237,331</u>
Net Assets at End of Year	<u><u>\$6,266,155</u></u>

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	<u>2003</u>	<u>2003</u>
Program Expenses		
Instruction:		
Regular	\$5,594,182	\$4,797,528
Special	1,624,955	361,200
Vocational	7,059	7,059
Other	139,462	58,762
Support Services:		
Pupil	516,247	434,651
Instructional Staff	518,867	386,356
Board of Education	47,693	47,220
Administration	1,634,393	1,564,769
Fiscal	261,916	258,629
Operation and Maintenance of Plant	1,078,373	933,351
Pupil Transportation	708,905	403,106
Central	155,526	155,526
Operation of Non-Instructional Services:		
Food Service Operations	721,320	(173,822)
Extracurricular Activities	236,870	54,643
Interest and Fiscal Charges	60,414	60,414
Total	<u>\$13,306,182</u>	<u>\$9,349,392</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 71% of instruction activities are supported through taxes and other revenues.

THE SCHOOL DISTRICT FUNDS

The School District's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,719,697 and expenditures of \$13,712,365.

The General Fund, the School District's only major fund, had revenues of \$11,541,430 and expenditures of \$10,671,819 with a net change in fund balance of \$869,611. The primary reasons for the increase in fund balance are due to a 6% increase in property tax revenues and a 7% increase in intergovernmental revenues that were partially offset by a 9.5% increase in expenditures from 2002.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

General Fund Budgeting Highlights

The School District's budget should be 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 2003, the School District amended its General Fund Budget, but not significantly.

For the General Fund, budget basis revenue was \$25,554 above original estimates of \$11,491,398 and budget basis expenditures were \$685,342 over original estimates of \$10,081,379. The expenditure variance is due to greater than anticipated expenditures in instructional services.

The School District's ending unobligated General Fund balance was \$2,926,385.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the School District had \$4,750,823 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$484,300	\$484,300
Land Improvements	52,919	57,403
Buildings and Improvements	3,798,864	3,842,243
Furniture and Equipment	165,199	46,586
Vehicles	249,541	169,730
Totals	<u>\$4,750,823</u>	<u>\$4,600,262</u>

For additional information on capital assets, see note 8 to the basic financial statements.

Debt

At June 30, 2003, the School District had general obligation bonds outstanding of \$390,000. The bonds were issued for school construction. For additional information on debt, see Note 13 to the basic financial statements.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

ECONOMIC FACTORS

As the preceding information shows, the School District depends upon the State School Foundation Program. The School District is in a low economic growth area, so dependence on local tax revenue must be minimized.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the School District Treasurer, Dan McDavid at (740) 377-9177.

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South Point Local School District, Ohio

Statement of Net Assets

As of June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,260,605
Cash and Cash Equivalents with Fiscal Agents	10,431
Restricted Cash and Cash Equivalents	968,703
Property Taxes Receivable	3,262,536
Intergovernmental Receivable	30,904
Inventory Held for Resale	6,787
Materials and Supplies Inventory	1,600
Prepaid Items	12,515
Nondepreciable Capital Assets	484,300
Depreciable Capital Assets, Net	<u>4,266,523</u>
<i>Total Assets</i>	<u>13,304,904</u>
Liabilities	
Accounts Payable	81,660
Accrued Wages and Benefits Payable	1,424,863
Intergovernmental Payable	389,749
Matured Bonds Payable	10,000
Matured Interest Payable	431
Accrued Interest Payable	9,488
Matured Compensated Absences Payable	49,431
Deferred Revenue	2,529,343
Long-Term Liabilities:	
Due Within One Year	503,178
Due In More Than One Year	<u>2,040,606</u>
<i>Total Liabilities</i>	<u>7,038,749</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,351,335
Restricted for:	
Capital Outlay	129,990
Debt Service	392,625
Other Purposes	1,873,858
Set-asides	67,581
Unrestricted	<u>(549,234)</u>
<i>Total Net Assets</i>	<u>\$6,266,155</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		Net (Expense)
		Charges for Services & Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$5,594,182	\$39,309	\$757,345	(\$4,797,528)
Special	1,624,955	0	1,263,755	(361,200)
Vocational	7,059	0	0	(7,059)
Other	139,462	0	80,700	(58,762)
Support Services:				
Pupil	516,247	0	81,596	(434,651)
Instructional Staff	518,867	0	132,511	(386,356)
Board of Education	47,693	0	473	(47,220)
Administration	1,634,393	0	69,624	(1,564,769)
Fiscal	261,916	0	3,287	(258,629)
Operation and Maintenance of Plant	1,078,373	0	145,022	(933,351)
Pupil Transportation	708,905	0	305,799	(403,106)
Central	155,526	0	0	(155,526)
Operation of Non-Instructional Services	721,320	300,335	594,807	173,822
Extracurricular Activities	236,870	107,208	75,019	(54,643)
Interest and Fiscal Charges	60,414	0	0	(60,414)
Totals	\$13,306,182	\$446,852	\$3,509,938	(\$9,349,392)
General Revenues				
Property Taxes Levied for:				
General Purposes				2,576,501
Grants and Entitlements not Restricted to Specific Programs				7,604,425
Investment Earnings				33,305
Miscellaneous				163,985
Total General Revenues				10,378,216
Change in Net Assets				1,028,824
Net Assets Beginning of Year - See Note 3				5,237,331
Net Assets End of Year				\$6,266,155

See accompanying notes to the basic financial statements

South Point Local School District, Ohio

*Balance Sheet
Governmental Funds
As of June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,238,570	\$2,022,035	\$4,260,605
Cash and Cash Equivalents with Fiscal Agents	0	10,431	10,431
Receivables:			
Property Taxes	3,262,536	0	3,262,536
Interfund Receivable	207,096	0	207,096
Intergovernmental	0	30,904	30,904
Prepaid Items	12,515	0	12,515
Materials and Supplies Inventory	0	1,600	1,600
Inventory Held for Resale	0	6,787	6,787
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	968,703	0	968,703
<i>Total Assets</i>	<u>\$6,689,420</u>	<u>\$2,071,757</u>	<u>\$8,761,177</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$52,091	\$29,569	\$81,660
Accrued Wages and Benefits Payable	1,140,421	284,442	1,424,863
Interfund Payable	0	207,096	207,096
Intergovernmental Payable	132,660	26,969	159,629
Matured Bonds Payable	0	10,000	10,000
Matured Interest Payable	0	431	431
Matured Compensated Absences Payable	47,922	1,509	49,431
Deferred Revenue	3,152,014	9,116	3,161,130
<i>Total Liabilities</i>	<u>4,525,108</u>	<u>569,132</u>	<u>5,094,240</u>
Fund Balances			
Reserved for Encumbrances	250,634	93,595	344,229
Reserved for Property Taxes	110,522	0	110,522
Reserved for Textbooks and Materials	385,098	0	385,098
Reserved for Capital Improvements	450,070	0	450,070
Reserved for Budget Stabilization	67,581	0	67,581
Reserved for Bus Purchases	65,954	0	65,954
Unreserved, Undesignated, Reported in:			
General Fund	834,453	0	834,453
Special Revenue Funds	0	937,762	937,762
Debt Service Funds	0	408,432	408,432
Capital Projects Funds	0	62,836	62,836
<i>Total Fund Balances</i>	<u>2,164,312</u>	<u>1,502,625</u>	<u>3,666,937</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,689,420</u>	<u>\$2,071,757</u>	<u>\$8,761,177</u>

See accompanying notes to the basic financial statements

South Point Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 As of June 30, 2003*

Total Governmental Fund Balances		\$	3,666,937
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,750,823
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes	\$622,671		
Intergovernmental	9,116		
Total			631,787
Long-Term Liabilities, including bonds, long-term portion of compensated absences and the long-term portion of pension obligations, are not due and payable in the current period and therefore are not reported in the funds.			
Interest Payable	(9,488)		
Compensated Absences	(1,720,281)		
Pension Obligations	(230,120)		
Claims Servicing Pool Debt	(433,503)		
General Obligation Bonds	(\$390,000)		
Total			(2,783,392)
Net Assets of Governmental Activities		\$	6,266,155

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$2,605,755	\$0	\$2,605,755
Intergovernmental	8,639,599	2,830,201	11,469,800
Investment Earnings	33,305	0	33,305
Tuition and Fees	39,309	0	39,309
Extracurricular Activities	0	107,208	107,208
Charges for Services	113,509	186,826	300,335
Miscellaneous	109,953	54,032	163,985
<i>Total Revenues</i>	<u>11,541,430</u>	<u>3,178,267</u>	<u>14,719,697</u>
Expenditures			
Current:			
Instruction:			
Regular	4,737,950	847,661	5,585,611
Special	871,085	740,131	1,611,216
Vocational	7,059	0	7,059
Other	112,217	27,191	139,408
Support Services:			
Pupil	428,188	83,574	511,762
Instructional Staff	347,809	139,190	486,999
Board of Education	47,110	484	47,594
Administration	1,551,327	71,820	1,623,147
Fiscal and Business	255,069	3,367	258,436
Operation and Maintenance of Plant	994,079	148,538	1,142,617
Pupil Transportation	724,027	245	724,272
Central	154,924	500	155,424
Operation of Non-Instructional Services	79,753	629,627	709,380
Extracurricular Activities	151,709	77,700	229,409
Capital Outlay	0	24,420	24,420
Debt Service:			
Principal	209,012	190,000	399,012
Interest and Fiscal Charges	501	56,098	56,599
<i>Total Expenditures</i>	<u>10,671,819</u>	<u>3,040,546</u>	<u>13,712,365</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>869,611</u>	<u>137,721</u>	<u>1,007,332</u>
<i>Net Change in Fund Balance</i>	869,611	137,721	1,007,332
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,294,701</u>	<u>1,364,904</u>	<u>2,659,605</u>
<i>Fund Balances End of Year</i>	<u>\$2,164,312</u>	<u>\$1,502,625</u>	<u>\$3,666,937</u>

See accompanying notes to the basic financial statements

South Point Local School District
*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, 2003*

Net Change in Fund Balances - Total Governmental Funds		\$ 1,007,332
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Fixed Asset Additions	455,666	
Current Year Depreciation	<u>(305,105)</u>	
Total		150,561
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(29,254)	
Intergovernmental	<u>(\$355,437)</u>	
Total		(384,691)
Repayment of bond principal is recorded as expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		190,000
Repayment of claims servicing pool principal is recorded as expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		200,000
In the statement of activities, interest is accrued on outstanding bonds and long-term notes payable, whereas in governmental funds, an interest expenditure is reported when due.		
		3,815
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(70,256)	
Pension Obligations	<u>(67,937)</u>	
Total		<u>(138,193)</u>
Net Change in Net Assets of Governmental Activities		<u><u>\$ 1,028,824</u></u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$2,581,277	\$2,581,277	\$2,581,277	\$0
Intergovernmental	8,632,954	8,632,954	8,639,599	6,645
Investment Earnings	14,596	14,596	33,305	18,709
Tuition and Fees	39,259	39,259	39,309	50
Customer Sales and Services	113,509	113,509	113,509	0
Miscellaneous	109,803	109,803	109,953	150
<i>Total Revenues</i>	<u>11,491,398</u>	<u>11,491,398</u>	<u>11,516,952</u>	<u>25,554</u>
Expenditures				
Current:				
Instruction:				
Regular	4,549,424	4,950,887	4,792,172	158,715
Special	806,369	877,527	873,021	4,506
Vocational	6,487	7,059	7,059	0
Other	59,550	64,805	64,593	212
Support Services:				
Pupil	370,997	403,736	402,580	1,156
Instructional Staff	304,775	331,670	329,550	2,120
Board of Education	53,782	58,528	50,578	7,950
Administration	1,476,863	1,607,211	1,598,613	8,598
Fiscal	223,305	243,010	241,872	1,138
Operation and Maintenance of Plant	957,427	1,041,915	1,023,255	18,660
Pupil Transportation	724,314	788,933	785,495	3,438
Central	336,355	366,036	364,735	1,301
Operation of Non-Instructional Services	73,286	79,753	79,753	0
Extracurricular Activities	138,445	153,514	153,445	69
<i>Total Expenditures</i>	<u>10,081,379</u>	<u>10,974,584</u>	<u>10,766,721</u>	<u>207,863</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,410,019</u>	<u>516,814</u>	<u>750,231</u>	<u>233,417</u>
Other Financing Sources (Uses)				
Advances In	0	0	462,232	462,232
Advances Out	(485,600)	(485,600)	(485,600)	0
Transfers Out	(53,532)	(53,532)	(53,532)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(539,132)</u>	<u>(539,132)</u>	<u>(76,900)</u>	<u>462,232</u>
<i>Net Change in Fund Balance</i>	870,887	(22,318)	673,331	695,649
<i>Fund Balance Beginning of Year</i>	1,843,880	1,843,880	1,843,880	0
Prior Year Encumbrances Appropriated	409,174	409,174	409,174	0
<i>Fund Balance End of Year</i>	<u>\$3,123,941</u>	<u>\$2,230,736</u>	<u>\$2,926,385</u>	<u>\$695,649</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$25,376</u>
Liabilities	
Due to Others	\$3,802
Due to Student	<u>21,574</u>
Total Liabilities	<u>\$25,376</u>

See accompanying notes to the basic financial statements

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

South Point Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's five instructional/support facilities staffed by 77 classified employees, 134 certified teaching personnel, and 11 administrators, who provide services to 1,841 students and other community members.

Reporting Entity

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

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

The School District participates in five organizations, three jointly governed organizations, one insurance purchasing pool, and one claims servicing pool. These organizations are the South Central Ohio Computer Association, Lawrence County Joint Vocational School, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Lawrence County School Insurance Purchasing Consortium. These organizations are presented in Notes 14 and 15 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

segregating transactions related to specific School District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. There are two categories of funds for this School District: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 is the School District's major governmental fund:

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

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

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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

Basis of Presentation

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

Government-wide Financial Statements

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

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

Measurement Focus

Government-wide Financial Statements – The government-wide statements are prepared using the full accrual economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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.

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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenues-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "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 School District, available means expected to be received within sixty days of fiscal year end.

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

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, investment earnings, tuition, grants, and fees.

Deferred Revenue

Deferred revenue arises 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities 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, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees, (3) the costs related to the workers compensation retrospective rating program are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period the costs were incurred. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amount reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Encumbrances

Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the basic financial statements encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures/expenses on a non-GAAP budgetary basis in the Required Supplemental Information.

Cash and Cash Equivalents

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

The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents Matured Bonds Payable and Matured Interest Payable.

During fiscal year 2003, investments were limited to certificates of deposit and repurchase agreements, which are reported at cost.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$33,305.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased.

Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets 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 fixed assets are recorded at their fair market values as of the date received. The School District increased the capitalization threshold from \$300 to \$5,000. The School District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress, 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>Estimated Lives</u>
Land Improvements	10-25 years
Buildings and Improvements	10-50 years
Furniture and Equipment	5-20 years
Vehicles	7-15 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The accrual amount is based upon accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy. The School District records a liability for accumulated, unused sick leave for classified and certified employees if they have either 15 years of current service with the School District or they have 5 years of service and are at least 55 years old.

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

On the governmental fund financial statement, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employee will be paid.

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, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits 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 in the current year. Bonds and long-term loans are recognized as a liability on the government-wide financial statements when due.

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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The restrictions for other purposes is comprised of net assets restricted for grants as well as textbooks and materials, capital improvements, budget stabilization, and bus purchase reserves required in the General Fund by law.

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, property tax revenue reserved by the Board for future year's appropriations, textbooks and materials, capital improvements, budget stabilization and bus purchases. The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America, but not available for appropriation under State statute. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements.

Estimates

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

Note 3 – Change in Accounting Principle and Restatement of Fund Balances

For fiscal year 2003, the School District has presented for the first time financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the School District has changed its basis of accounting from the cash basis to the GAAP basis. The School District also early implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria of determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen or potentially could arise in interpretation and practice.

The beginning net assets amount for government programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 3 – Change in Accounting Principle and Restatement of Fund Balance (Continued)

It was determined that the Food Service Enterprise Fund should be reclassified to Special Revenue Funds. The implementation of these Statements and the change from cash to GAAP basis reporting required that certain adjustments be recorded to the June 30, 2003, fund balances of major and non-major funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Non-Major	Total
Fund Balances, June 30, 2002	\$1,242,197	1,206,493	2,448,690
Fund Reclassification		173,459	173,459
Adjustments necessary to comply with GAAP	52,504	(15,048)	37,456
Restated Fund Balances, June 30, 2002	\$1,294,701	\$1,364,904	\$2,659,605
Adjustments necessary to comply with GASB 34			2,577,726
Governmental Activities Net Assets, June 30, 2002			\$5,237,331

Transition from governmental fund balance to net assets:

	Enterprise Funds
Fund Equity, June 30, 2002	\$173,459
Fund Reclassification	(173,459)
Business Type Activities Net Assets, June 30, 2002	\$0

Note 4 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget 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 GAAP (modified accrual) basis are as follows:

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4 - Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$869,611
Revenue Accruals	437,754
Expenditure Accrual	(354,726)
Encumbrances	<u>(279,308)</u>
Budget Basis	<u><u>\$673,331</u></u>

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits 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.

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.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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;

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments (Continued)

3. Written repurchase agreements in 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 marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days 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 rating classifications by at least two nationally recognized rating agencies.

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

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

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

Cash with Fiscal Agents At year end the School District's bond and coupon account has \$10,431 in cash with fiscal agents which is included on the financial statements as "Cash and Cash Equivalents with Fiscal Agents."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$2,021,616 and the bank balance was \$2,155,105. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,955,105 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments (Continued)

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

Investment	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$3,233,068	\$3,233,068

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and investments and the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$5,265,115	\$0
Cash with Fiscal Agents	(10,431)	
Repurchase Agreements	(3,233,068)	3,233,068
GASB Statement 3	\$2,021,616	\$3,233,068

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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, public utility, and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2003 real property taxes are collected in and intended to finance fiscal year 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2003 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2003, and are collected in 2004 with real property taxes.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 6 - Property Taxes (Continued)

2003 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$122,314,950	85%	\$124,300,140	86%
Public Utility Personal	9,686,790	7%	9,833,430	7%
Tangible Personal Property	11,811,750	8%	10,891,800	7%
Total	\$143,813,490	100%	\$145,025,370	100%
 Tax Rate per \$1,000 of assessed valuation	 \$20.90		 \$20.40	

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 later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lawrence County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations.

The amount available as an advance at June 30, 2003, was \$110,522 and is recognized as revenue in the General Fund. The amount available as an advance at June 30, 2002 was \$88,186 and was recognized as revenue. \$86,044 was available to the General Fund and \$2,142 was available to the Debt Service Fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 7 - Receivables

Receivables at June 30, 2003, consisted of property taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Special Education Grants to States (IDEA Part B)	\$4,728
Title I Grants to Local Educational Agencies	14,385
Education Technology State Grants	2,493
Safe and Drug-Free Schools and Communities National Programs	278
Improving Teacher Quality State Grants	<u>9,020</u>
Total Governmental Activities	<u><u>\$30,904</u></u>

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 6/30/2002	Additions	Deductions	Balance 6/30/2003
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$484,300	\$0	\$0	\$484,300
Total Capital Assets not being Depreciated	<u>484,300</u>	<u>0</u>	<u>0</u>	<u>484,300</u>
Depreciable Capital Assets:				
Land Improvements	556,305	0	0	556,305
Buildings and Improvements	9,111,215	193,812	0	9,305,027
Furniture and Equipment	534,794	147,434	0	682,228
Vehicles	815,473	114,420	0	929,893
Total Capital Assets being Depreciated	<u>11,017,787</u>	<u>455,666</u>	<u>0</u>	<u>11,473,453</u>
Less Accumulated Depreciation				
Land Improvements	(498,902)	(4,484)	0	(503,386)
Buildings and Improvements	(5,268,972)	(237,191)	0	(5,506,163)
Furniture and Equipment	(488,208)	(28,821)	0	(517,029)
Vehicles	(645,743)	(34,609)	0	(680,352)
Total Accumulated Depreciation *	<u>(6,901,825)</u>	<u>(305,105)</u>	<u>0</u>	<u>(7,206,930)</u>
Total Capital Assets being Depreciated, Net	<u>4,115,962</u>	<u>150,561</u>	<u>0</u>	<u>4,266,523</u>
Capital Assets, Net	<u>\$4,600,262</u>	<u>\$150,561</u>	<u>\$0</u>	<u>\$4,750,823</u>

* Of the total capital assets being depreciated, \$2,863,209 was fully depreciated at 6/30/03.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$234,265
Support Services:	
Instructional Staff	26,545
Administration	1,586
Pupil Transportation	34,609
Operation of Non-Instructional Services:	
Food Service Operations	2,276
Extracurricular Activities	5,824
Total Depreciation Expense	<u>\$305,105</u>

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 9 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the School District contracted with UTICA National Insurance Group for property insurance and the Ohio School Plan for general liability insurance.

Professional liability is protected by the Ohio School Plan with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate and a \$2,500 deductible. Vehicles are covered by Indiana Insurance, a Member of Liberty Mutual Group, and hold a \$250 deductible for comprehensive and \$500 for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded commercial coverage in any of the past five years. There has been no significant reduction in insurance coverage from last year.

Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Employee Medical Benefits

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool (Note 15). The intent of the consortium is to achieve the benefit of a reduced health insurance premium for the School District by virtue of its grouping and representation with other participants in the consortium. Each participant pays its health insurance premium to the insurance provider. Participation in the consortium is limited to school districts that can meet the criteria outlined in the consortium's operating articles. The firm of Cross and Associates provides administrative services to the consortium.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 10 - 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 eleven to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to the amount of sick leave that may be accumulated. Upon retirement, payment is made for one-half of the total sick leave accumulation, up to a maximum of 225 days, or 25% of the total unused sick leave days, whichever is greater.

B. Insurance

The School District provides life insurance to most employees through Coresource.

The School District has contracted with Medical Mutual of Ohio for medical benefits and Medical Benefits for dental and vision benefits. The employees share the cost of the monthly premium with the Board. For fiscal year 2003, the School District's and the employees' premiums are listed below:

Medical Mutual Healthcare		Medical Benefits Dental		Medical Benefits Vision	
Family	Single	Family	Single	Family	Single
\$993.89	\$402.78	\$70.76	\$19.34	\$15.14	\$5.86

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent, for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 11 - Defined Benefit Pension Plans (Continued)

for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$164,520, \$116,544, and \$32,561 respectively; 47 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2001 and 2000. \$86,780 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system. 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer the account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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 School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$786,872, \$599,893, and \$565,985, respectively; 86 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. \$108,572 represents the unpaid contribution for fiscal year 2003.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 11 - Defined Benefit Pension Plans (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$60,529 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$149,344.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 13 - Long Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Restated Principal Outstanding 6/30/02	Additions	Reductions	Principal Outstanding 6/30/03	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
1982 School Building, 11.125%	\$580,000	\$0	\$190,000	\$390,000	\$195,000
Compensated Absences	1,648,643	71,638	0	1,720,281	108,178
Claims Servicing Pool Debt 0%	633,503	0	200,000	433,503	200,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,862,146</u>	<u>\$71,638</u>	<u>\$390,000</u>	<u>\$2,543,784</u>	<u>\$503,178</u>

The school improvement bond will be paid from the debt service fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The obligation to Westfall Local School District, fiscal agent for the Ross County claims servicing pool, which is due to large self insurance losses, will be paid from the general fund.

The School District's overall legal debt margin was \$12,872,292, with an unvoted debt margin of \$143,025 at June 30, 2003. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$195,000	\$32,541	\$227,541
2005	195,000	10,847	205,847
Total	<u>\$390,000</u>	<u>\$43,388</u>	<u>\$433,388</u>

Note 14 - Jointly Governed Organizations

The Lawrence County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from Chesapeake-Union Exempted Village School District, two from South Point Local School District and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Lawrence County Joint Vocational School District, 11627 State Route 243, Chesapeake, Ohio 45619.

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 14 - Jointly Governed Organizations (Continued)

governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. South Point Local School District paid \$34,651 for all services provided during fiscal year 2003. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

The Pilasco-Ross Special Education Regional Resource Center (Pilasco-Ross) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The South Point Local School District's Superintendent is an alternate for the Pilasco-Ross Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

Note 15 - Claims Servicing and Insurance Purchasing Pools

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

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service center. Participants pay \$5 per month per participating employee to the consortium to cover the costs of administering the program.

Note 16 – Set-Asides

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

As of fiscal year ended June 30, 2002, the School District is no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 16 – Set-Asides (Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance, June 30, 2002	\$386,509	\$460,123	\$67,581
Prior Year Error	(20,115)	(20,115)	0
Adjusted Set-aside Reserve Balance, June 30, 2002	366,394	440,008	67,581
Current Year Set-aside Requirement	255,984	255,984	0
Qualifying Disbursements	(237,280)	(245,922)	0
Total Set-aside Balance Carried Forward to Future Fiscal Years	385,098	450,070	67,581
Set-aside Reserve Balance June 30, 2003	<u>\$385,098</u>	<u>\$450,070</u>	<u>\$67,581</u>

The total amount for the three set-asides at the end of the fiscal year was \$902,749.

Note 17 – State School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The School District is currently not party to legal proceedings.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 19 – Subsequent Events

In March 2004, the voters passed a levy for the School District to incur debt for an Ohio School Facilities Commission project. The project involves the construction of four buildings (e.g. two elementary school buildings, a middle school building and a high school building).

On April 20, 2004, the School District sold \$10,318,173 of School Improvement Unlimited Tax General Obligation Bond Anticipation Notes for the Ohio School Facilities Commission Project. Bond Anticipation Notes are to mature on October 12, 2004.

Note 20 – Compliance

A. Accountability

At June 30, 2003, the ADA Grant, Video Distance Learning, Gifted Education and Chapter 1 Special Revenue funds had deficit fund balances of \$168, \$6,352, \$433, and \$92,794 respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Ohio Revised Code Compliance

Ohio Revised Code Section 5705.38 provides that the Board of Education shall pass its annual appropriation measure by the first day of October. The School District passed a temporary appropriation measure on June 25, 2002; however, the School District did not pass a final appropriation resolution for fiscal year 2003 until June 30, 2003.

Ohio Revised Code Section 5705.39 provides that appropriations from each fund should not exceed the total estimated resources for that fund. The School District had appropriations that exceeded the total estimated resources in the following funds:

PSF Fund	\$17,000
Martha Holden Jennings Fund	\$4,500
EMIS Fund	\$7,500
DPIA Fund	\$750,000
Schoolnet Professional Development Fund	\$ 7,000
Ohio Reads Grant Fund	\$60,000
Summer Intervention Fund	\$9,500
Miscellaneous State Grants Fund	\$12,000
Eisenhower Professional Development Education Grant Fund	\$18,000
Special Education Grants to States (IDEA Part B) Fund	\$46,000
Safe and Drug-Free Schools and Communities State Grants Fund	\$4,000
Goals 2000 Fund	\$3,700
Medical Assistance Program and Assistive Technology Grant Fund	\$275,000
Permanent Improvement Fund	\$58,000
Schoolnet Fund	\$60,000
Video Distance Learning Fund	\$25,000
Food Service Fund	\$150,000

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 20 – Compliance (Continued)

A. Ohio Revised Code Compliance Continued

Ohio Revised Code Sections 5705.10 provide that advances of funds must be clearly labeled as such and that advances must be approved by a formal resolution of the Board. The School District had an advance in the amount of \$161,879 which was not approved by the Board.

Ohio Revised Code Section 5705.36 provides that subdivisions request increased amended certificates of estimated resources and reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. The following funds received monies as of March 31, 2003 which were not included on the Official Certificate of Estimated Resources as of March 31, 2003:

- DPIA Fund
- Schoolnet Professional Development Fund
- Ohio Reads Grant Fund
- Miscellaneous State Grant Fund
- Safe and Drug Free-Schools and Communities State Grants Fund
- Goals 2000 Fund
- Class Size Reduction Grant Fund
- Schoolnet Fund

B. Federal Compliance

7 C.F.R. Part 210.02 and 7 C.F.R. 210.14 (a) states, all monies received by or accruing to the food service fund of any school district including, but not limited to, children’s payments, earnings on investments, and other local revenues, should be credited to and used by those funds.

Interest earnings were not allocated to the Food Service Fund for fiscal year 2003. Interest earnings not credited to the Food Service Fund from July 1, 2002 through June 30, 2003 amounts to \$596.

OMB Circular A-133 provides that the auditee shall prepare appropriate financial statements, including the schedule of expenditures of Federal awards. The District did not have the necessary information readily available to prepare the schedule of expenditures of Federal awards and there were numerous errors in the coding and posting of federal programs.

The School District filed inaccurate final expenditure reports which conflicts with the Ohio Department of Education’s Consolidation Application Assurance Item 5 that states Local Education Agencies will make reports to ODE as may be reasonably necessary to enable ODE to perform its duties.

Federal Questioned Costs –

The District had total federal questioned costs in the amount of \$159,475 related to its Title I Grants to Local Educational Agencies grant program for the 2003 fiscal year.

The District had total federal questioned costs in the amount of \$190,321 related to its Special Education Grants to States (IDEA Part B) grant program for the 2003 fiscal year.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$ -	\$50,751	\$ -	\$50,751
School Breakfast Program	05PU-02/03	10.553	92,017		92,017	
National School Lunch Program	LLP1/P4-02/03	10.555	<u>262,352</u>		<u>262,352</u>	
Total United States Department of Agriculture - Nutrition Cluster			354,369	50,751	354,369	50,751
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-02/03	84.010	763,521		677,943	
Special Education Grants to States	6BSF-02/03	84.027	365,258		181,972	
Safe and Drug-Free Schools and Communities State Grants	DRS1-02/03	84.186	21,713		7,463	
Eisenhower Professional Development State Grants	MSS1-02	84.281			4,211	
Innovative Education Program Strategies	C2S1-02/03	84.298	21,656		16,949	
Education Technology State Grants	TJS1-03	84.318	14,126		52,574	
Class Size Reduction Grant	CRS1-02	84.340	25,665		69,826	
School Renovation Grant	ATS2-02	84.352A	10,310		10,308	
Improving Teacher Quality State Grant	TRS1-03	84.367	<u>160,244</u>		<u>44,025</u>	
Total United States Department of Education			1,382,493	-	1,065,271	-
<u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	<u>44,528</u>		<u>44,528</u>	
Total United States Department of Health and Human Services			<u>44,528</u>	-	<u>44,528</u>	-
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$1,781,390</u>	<u>\$50,751</u>	<u>\$1,464,168</u>	<u>\$50,751</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

South Point Local School District
Lawrence County
203 Park Avenue
South Point, Ohio 45680

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the South Point Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 30, 2004, wherein we noted the School District has adopted Governmental Accounting Statements No. 34, 37, and 38 and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-001 through 2003-009. We also noted certain immaterial instances of noncompliance that we have reported to the School District's management in a separate letter dated July 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-010 through 2003-013.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2003-012 and 2003-013 listed above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the School District's management in a separate letter dated July 30, 2004.

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

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

Betty Montgomery
Auditor of State

July 30, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

South Point Local School District
Lawrence County
203 Park Avenue
South Point, Ohio 45680

To the Board of Education:

Compliance

We have audited the compliance of the South Point Local School District, Lawrence County, Ohio (the 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 are applicable to its major federal programs for the year ended June 30, 2003. The School District's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

As described in items 2003-014 and 2003-017 through 2003-021 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding allowable costs/cost principles, reporting, cash management and period of availability of federal funds that are applicable to its Title I Grants to Local Educational Agencies (CFDA #84.010) and Special Education Grants to States (CFDA #84.027). Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to those programs.

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In our opinion, because of those instances of noncompliance referred to in the preceding paragraph, the School District did not comply, in all material respects with the requirements referred to above that are applicable to its major federal programs, Title I Grants to Local Educational Agencies (CFDA #84.010) and Special Education-Grants to States (CFDA #84.027), for the year ended June 30, 2003. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the School District in a separate letter dated July 30, 2004.

Internal Control over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-15 and 2003-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above, items 2003-015 and 2003-016, to be material weaknesses. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated July 30, 2004.

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



Betty Montgomery
Auditor of State

July 30, 2004

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010 Special Education Grants to States (IDEA Part B) – CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001

Noncompliance Citation – Ohio School Facilities Commission Project

Per Article 2.8 of the School District's Agreement for State Funding for the Ohio School Facilities Commission Disability Access Project, the School District agrees to return to the State, through the Commission, any surplus of money not expended from the appropriation for major renovation and repair.

The School District completed an Ohio School Facilities Commission Project in 2002 for a Middle School Elevator Project for which the School District provided a fifteen percent match. The architect was originally overpaid on the contract in the amount of \$5,505.76 which the architect refunded to the School District in February of 2002. The "Final Cost Summary" prepared by the School District Treasurer and submitted to the Ohio School Facilities Commission included the overpayment in the Final Project Cost amount which is the amount which was used to determine the eighty-five percent state match. As a result, eighty-five percent of the refunded amount of \$5,505.76 which calculates to \$4,679.80 represents an overpayment of state monies which would not have been received if the Final Project Cost was correct.

We recommended the School District remit the overpayment of state monies to the Ohio School Facilities Commission. The School District remitted check #43445, dated July 21, 2004, payable to Ohio School Facilities Commission in the amount of \$4,679.80.

FINDING NUMBER 2003-002

Noncompliance Citation – Food Service Interest

7 C.F.R. Part 210.02 and 7 C.F.R. Part 210.14(a) require all monies received by or accruing to the Food Service Fund of any school district including, but not limited to, children's payments, earnings on investments, and other local revenues, should be credited to and used by those funds.

Interest earnings were not allocated to the Food Service Fund for fiscal year 2003. Interest earnings not credited to the Food Service Fund from July 1, 2002 through June 30, 2003 amount to \$596. However, an adjustment was made by the School District to the fiscal year 2004 accounting records to reflect the amount in the Food Service Fund.

We recommend the School District Treasurer begin posting interest revenue to the Food Service Fund on a monthly basis.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 3317.022(C)(5) indicates that Schools must spend their special education weighted funding from the State on special education related activities. The legislation requires the Ohio Department of Education (the Department) to accumulate financial data from each School District summarizing special education receipts and disbursements. The Department is annually required to report districts that have not met the spending goals to the Ohio Legislature. For the year ended June 30, 2003, the Department reported that the School District spent \$307,513 less than it received for special education.

The Department is working with School Districts to remedy these shortfalls in spending. Some shortfalls may have occurred due to the School District improperly coding disbursements. The Department and the Ohio Association of School Business Officials sponsored training and sent e-mails to School District on how to code special education costs.

We recommend the School District review special education spending for miscoding and review the information provided at the training and in the e-mails to help assure the School District properly codes special education disbursements. Also, the School District can also contact the Department for additional information on this matter. We further recommend the School District review its spending level for special education and review whether the School District's IEPs (individual educational plans) for special education students are up to date and accurate.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Sections 3315.17 and 3315.171 require that every local school district annually set aside in the district's general fund designated as a reserve for textbooks, an amount for textbooks and instructional materials. This required amount is presented on the Ohio Department of Education's website.

During fiscal year 2003, the School District Treasurer set aside for textbook and instructional materials, \$318 which is \$255,666 less than the required amount of \$255,984. However, an adjustment was made by the School District to properly reflect the amounts on their June 30, 2003 financial statements and accounting records.

We recommend the School District Treasurer annually set aside the required amount for textbook and instructional materials as required by the Department of Education.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Sections 3315.18 and 3315.181 require that every local school district annually set aside in the district's general fund designated as a reserve for capital improvement, an amount for capital improvements and maintenance. This required amount is presented on the Ohio Department of Education's website.

During fiscal year 2003, the School District Treasurer set aside for capital improvement and maintenance, \$0 of the required amount of \$255,984. However, an adjustment was made by the School District to properly reflect the amounts on their June 30, 2003 financial statements and accounting records.

We recommend the School District Treasurer annually set aside the required amount for capital improvements and maintenance as required by the Department of Education.

FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Revised Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year. Cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

During our testing, we noted advances of funds which were not approved by a formal resolution of the Board of Education nor recorded in the minute record. This could lead to an inability to distinguish whether a transfer or advance of funds occurred and whether the transaction was properly approved by the Board of Education. Also, we noted advances which the Treasurer did not provide Board of Education member approval for in the amount of \$161,879 of which \$100,122 was paid back prior to the end of the fiscal year.

We also noted advances from the prior year which have not been repaid. The amount was recorded on the School District's financial statements as an interfund payable and receivable. This could result in the advance of funds going unpaid.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

**FINDING NUMBER 2003-006
(Continued)**

Noncompliance Citation (Continued)

We recommend advances of funds made by the School District be approved by a formal resolution of the Board of Education and include specific indications of the purpose of the advance, and include a time frame for repayment. We further recommend that all advances of funds be listed and labeled as such in the minute record of the Board of Education. In addition, we recommend that if the School District no longer intends for an advance to be repaid, the School District take the appropriate steps to convert the advance to a transfer. The School District should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances.

FINDING NUMBER 2003-007

Noncompliance Citation

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased Amended Certificates of Estimated Resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

We tested as of March 31, 2003 and the following funds received receipts throughout the fiscal period and were not estimated per the Official Certificate of Estimated Resources and had amounts that were subsequently expended. In addition, the Class Size Reduction Fund did not have any appropriations approved for the fiscal period and the other funds listed did not have sufficient appropriations to cover their expenditures and all funds listed had sufficient revenues to obtain an Amended Official Certificate of Estimated Resources in order to appropriate the funds for expenditure.

Fund	Amount Received at March 31, 2003
DPIA Fund (447)	\$662,047
Schoolnet Professional Development Fund (452)	\$934
Ohio Reads Grant Fund (459)	\$75,060
Miscellaneous State Grant Fund (499)	\$3,605
Safe and Drug-Free Schools and Communities State Grants Fund (584)	\$2,925
Goals 200 Fund (589)	\$21,250
Class Size Reduction Fund (590)	\$56,133
Schoolnet Fund (450)	\$237

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

**FINDING NUMBER 2003-007
(Continued)**

Noncompliance Citation (Continued)

This resulted because the School District did not obtain an amended official certificate of estimated resources until the end of the year.

We recommend the School District monitor estimated receipts and actual receipts throughout the year and request a reduced amended certificate when it is evident that available resources may be overspent. In addition, we recommend that an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend excess revenues.

FINDING NUMBER 2003-008

Noncompliance Citation

Ohio Rev. Code Section 5705.39 indicates the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Throughout the year, the School District had appropriations that exceeded the total estimated resources in the following funds:

Fund	Appropriations	Estimated Resources	Variance	Percentage
PSF Fund (018)	\$52,000	\$35,000	\$17,000	49%
Martha Holden Jennings Fund (019)	\$4,500	\$0	\$4,500	100%
EMIS Fund (432)	\$15,000	\$7,500	\$7,500	100%
DPIA Fund (447)	\$750,000	\$0	\$750,000	100%
Schoolnet Professional Development Fund (452)	\$7,000	\$0	\$7,000	100%
Ohio Reads Grant Fund (459)	\$60,000	\$0	\$60,000	100%
Summer Intervention Fund (460)	\$9,500	\$0	\$9,500	100%
Miscellaneous State Grants Fund (499)	\$12,000	\$0	\$12,000	100%
Eisenhower Professional Development Education Grant Fund (514)	\$18,000	\$0	\$18,000	100%
Special Education Grants to States (IDEA Part B) Fund (516)	\$154,000	\$108,000	\$46,000	43%
Safe and Drug-Free Schools and Communities State Grants Fund (584)	\$4,000	\$0	\$4,000	100%
Goals 2000 Fund (589)	\$3,700	\$0	\$3,700	100%

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(Continued)

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

FINDING NUMBER 2003-008 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.39 (Continued)

Fund	Appropriations	Estimated Resources	Variance	Percentage
Medical Assistance Program and Assistive Technology Grant Fund (599)	\$341,000	\$66,000	\$275,000	417%
Permanent Improvement Fund (003)	\$58,000	\$0	\$58,000	100%
Schoolnet Fund (450)	\$60,000	\$0	\$60,000	100%
Video Distance Learning Fund (458)	\$25,000	\$0	\$25,000	100%
Food Service Fund (006)	\$630,000	\$480,000	\$150,000	31%

We recommend the School District obtain a certificate of estimated resources at the beginning of the fiscal year and amend as necessary throughout the fiscal year to avoid appropriations exceeding total estimated resources. We further recommend the School District monitor appropriations versus estimated resources throughout the year to avoid having appropriations exceed the estimated resources which will help avoid expenditure amounts which exceed estimated resources.

FINDING NUMBER 2003-009

Noncompliance Citation

Ohio Rev. Code Section 5705.412 requires the Treasurer, Superintendent and President of the Board of Education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year.

Term of certificate:

- The certificate attached to an appropriation measure covers only the fiscal year in which the appropriation measure is effective.
- The certification must be attached to all appropriation measures *except* for temporary measures when the temporary measure does not appropriate more than twenty-five percent of the total resources available last year for any fund, the measure will not be in effect for more than thirty days after the earliest date the district could pass an annual appropriation measure, and an amended certificate of available revenues has not been certified to the district under Ohio Rev. Code Section 5705.36.
- The certificate attached to a qualifying contract covers the term of the contract.
- The certificate attached to a wage or salary schedule covers the term of the schedule.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-009 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.412 (Continued)

- A “*qualifying contract*” is “...any agreement for the expenditure of money under which aggregate payments from the funds included in the school district’s five-year forecast under Section 5705.391 of the revised code will exceed the lesser of the following amounts...”:
 - \$500,000;
 - 1% of the general fund’s total estimated revenues as certified in the district’s most recent certificate of estimated resources under Ohio Rev. Code Section 5705.36

A school district must include the additional certification under Section 5705.412 along with the certification required under Section 5705.41 except under the following circumstances:

- for current payrolls of individual regular employees or officers, or contracts of employment with individual regular employees or officers; or,
- when increasing the wages or salaries enabling the school board to comply with division (B) of Ohio Rev. Code Section 3317.13, which addresses the minimum salary schedule for teachers

Section 5705.412 certificates *should* be executed for:

- appropriation measures (except certain temporary measures; see above);
- increased salary or wage schedules and
- any other “qualifying contracts”, including 1) negotiated agreements (e.g. professional association [“union”] contracts) and, 2) contracts for benefits (e.g., major health insurance contracts)

Obligations that have not been certified as required are considered void. No payments may be made on void obligations.

Penalties: Anyone who knowingly does any of the following, is liable for the full amount paid on the obligation, up to \$10,000:

- executing an obligation contrary to Section 5705.412,
- expending or authorizing the expenditure of public funds contrary to Section 5705.412, or
- authorizing or making payment of public funds on a void obligation

The School District did not have the Superintendent sign off on the 412 certificate for the appropriation measure approved on June 28, 2002. However, at the Auditor of State’s request, the 412 Certificate was properly approved by the School District Superintendent on June 14, 2004.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-010

Reportable Condition – Financial Monitoring

For each regular board meeting, the Board of Education receives a report of checks written during the month and a FINSUM report which shows receipts, expenditures and fund balance by fund. The School District Treasurer should also provide budget and actual revenue and expenditure reports and the bank reconciliation. The Board of Education should carefully review this information and make appropriate inquiries to manage the district.

This information can help answer questions such as the following:

- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- Is the school district maximizing its return on invested cash balances?
- Is the school district able to achieve the financial goals as set by the original or amended budgets?
- Are balances within each cost center reasonable and consistent with prior years?
- Are monies being spent in accordance with the approved appropriations?
- Is there evidence the School District should amend the five-year forecast it files with the Ohio Department of Education?

In addition, there was no documentation in the minute record that the Board of Education reviewed the audit report for fiscal year 2002. The Board of Education should take a more active role in meeting with the independent auditors before and after each audit to evaluate the results of the financial and compliance audit to ensure that the internal control and legal compliance issues are promptly and effectively remedied.

The Board of Education could also accomplish this by establishing an Audit Committee. An Audit Committee can serve as a liaison between management and its auditors. The primary functions of such a Committee are to monitor and review the district's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors. The Audit Committee can include members of the Board of Education. However, it can also include representation that is independent from elected officials or management. The Audit Committee could include professionals knowledgeable in the school district's financial operations, such as attorneys or bankers.

We recommend the Board of Education take a more active role in monitoring the financial activity and results of audits for the School District. The minute record should indicate what financial information the Board of Education is approving and copies should be maintained. The Board of Education should consider establishing an Audit Committee as an additional tool for monitoring the financial activity of the School District.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-011

Reportable Condition – Capital Assets

The Capital Assets listing was not properly maintained by the School District during the audit period. As a result, we noted the following items:

Listing

The School District did not have a capital asset system. The last complete listing was an asset appraisal performed in October 2001. The School District has relied upon information the GAAP Conversion Company has maintained for each subsequent fiscal period. However, maintaining systems to support financial statements is management's responsibility. The lack of a system could result in the misstatement of capital assets in the School District's basic financial statements since there is no central area from which to collect the necessary information. Further, physical security and control of the assets are hampered by not having a central tracking system.

Deletions

The Board of Education approved the disposal of assets throughout the year; however, we were not able to determine whether all asset disposal/transfer forms were obtained which would document the items approved for disposal. In addition, per our review of disposal forms on file, we found no indication that a capital asset listing existed which had been maintained and updated for the disposal of items indicated on the listing. This resulted in the potential for items to not be deleted from the School District's Capital Asset listing and could result in an overstatement of capital asset amounts.

Additions

An accurate listing of capital asset additions was not maintained by the School District Treasurer nor provided to the Independent Public Accountant (IPA) responsible for the compilation of the School District's financial statements. As a result, other procedures were used to determine the capital assets addition amount for fiscal year 2003. This resulted in the fiscal year 2003 additions being understated by \$276,554. This has been adjusted to their June 30, 2003 basic financial statements.

We recommend the School District develop or acquire a capital asset tracking system considering the following items:

Listing

A detailed listing of capital assets including annual additions and deletions should be maintained and provided to individuals responsible for the compilation of the School District's financial statements. In addition, fully depreciated capital assets should be reviewed to determine whether the assets are still being used (i.e., that they have not been discarded or abandoned). If fully depreciated assets are still in use, asset lives should be reevaluated and if an asset will outlive its expected life, the asset life should be increased and the remaining undepreciated life should be allocated over the new estimate of remaining life.

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-011 (Continued)

Reportable Condition – Capital Assets (Continued)

Policy

A formal policy should be adopted by the Board of Education for maintaining a capital asset listing. This policy should include, but not be limited to, the following: capitalization threshold, category or class of assets, method of cost capitalization, method of depreciation, useful lives and methods of acquisition or disposal.

Deletions/Transfers

When the School District or any of its officials determines that an asset is to be transferred to a different department or disposed of due to the item being obsolete, unrepairable, etc. the proper procedures should be followed for transfer or disposal of the asset. This should document information such as: item description, item identification number, location, original cost, location after transfer, method of disposal, date of disposal and proper approvals by the Principal, Superintendent and School District Treasurer. The capital asset listing should be updated in a timely manner to reflect any transfer or deletion.

Reviewing Capital Outlay Disbursements

Capital asset additions should be tracked in accordance with the School District's policy. Expenditures should be periodically monitored by the School District Treasurer for evidence of purchases meeting the capitalization criteria. Items meeting the capitalization criteria should be timely recorded to the capital asset listing.

FINDING NUMBER 2003-012

Material Weakness – Payroll Account Reconciliations

The School District Treasurer did not reconcile the payroll account during the audit period. This resulted in cumbersome reconciliations and errors in the account going undetected for an extended period of time. These errors included the following types of items:

- Interest in the account was not recorded into the School District's accounting records
- Deposits in transit existed from the general account were noted in the amount of \$6,153 that were also outstanding on the general account's outstanding check list
- Long outstanding items existed from the prior audit period
- Checks cleared the account which were not in agreement with amounts posted to the system or were not posted to the system at all.

These conditions not only increase the likelihood of accounting errors, but may allow fraud to occur and not be detected. We recommend the current payroll account maintained by the School District be reconciled by the School District Treasurer or an appointed individual on a monthly basis. We further recommend the School District Treasurer follow up on and correct the long outstanding items found in the payroll account.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-013

Material Weakness – General Operating Account Monthly Reconciliations

Accurate monthly reconciliations of the ending bank account balance to the School District's ending book balance were not performed during the audit period by the School District Treasurer for the General Operating Account. We reconciled the School District for the period under audit. While performing the reconciliation, we note that code corrections were posted by the School District Treasurer to various accounts during fiscal year 2003. Code corrections were posted as reductions to expenditures to one account and posted as expenditures to another account for which supporting documentation was not maintained by the School District Treasurer. Many of these code corrections were the result of the School District maintaining numerous special cost centers within a fund. In addition, while performing the reconciliation, we noted that the School District Treasurer's Office issued "On Demand" checks which were not posted to the School District's accounting system until a later date which resulted in checks clearing the bank accounts which did not agree to the accounting system and/or required two checks to be issued to agree to the amount posted to the accounting system.

This resulted in misrepresented financial statements, inaccurate book balances and cumbersome reconciliation procedures. 109 reconciling items were required to bring the financial statements into balance. The School District's financial statements were out of balance by a net amount of \$11,609. In addition, checks were outstanding for longer than six months in the School District's general operating account outstanding check list.

As a result, we make the following recommendations:

- We recommend that accurate reconciliations of the School District's bank accounts be performed by the School District Treasurer on a monthly basis. Any reconciling items should be documented and investigated to prevent unsupported adjustments from being recorded.
- We recommend the School District Treasurer maintain accurate listings of outstanding checks and deposits and to follow up on items which have been outstanding for an extended period of time to ensure that proper credit is given to the School District for outstanding deposits and outstanding checks are voided and paid into the School District's unclaimed monies fund in accordance with Auditor of State Bulletin 96-013 or reissued.
- We recommend that the monthly bank reconciliations be reviewed and approved by the School District Board of Education as part of their monthly Board Meetings and signed or initialed by the Board President indicating Board review and approval.
- We recommend interest should be posted monthly based on amounts indicated on the bank statements and checks be issued in a manner to agree to the amount posted to the accounting system.
- We recommend the School District Treasurer maintain documentation to support code correction transactions and review Special Cost Centers within funds to determine whether the current special cost centers are necessary and that the required Special Cost Centers have been established.

Also, recent changes to Government Auditing Standards' independence rules will prohibit us from reconciling the School District's accounts in future audits. A lack of reconciled accounts will impair our ability to audit the School District's financial statements in future years.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2003-014
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Preparation of Federal Schedule

OMB Circular A-133 §__.300 (d) states that the auditee shall prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §__.310. OMB Circular A-133 §__.310 (b) states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For Research and Development, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The School District, in addition to being responsible for the fair presentation of the Schedule of Federal Awards Expenditures (the Federal Schedule), is responsible for ensuring compliance with applicable laws and regulations related to the grants.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2003-014 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation - Preparation of Federal Schedule (Continued)

The School District did not have the necessary information readily available to prepare the Federal Schedule.

A listing of deficiencies found while testing and preparing the federal schedule and testing of grant requirements for Title I and IDEA B are as follows:

- Special cost centers were not utilized and monitored properly
- Special cost centers were incorrectly named
- Several federal receipts were posted to incorrect funds
- Instances of incorrect receipt descriptions were noted
- Several federal expenditures were posted to incorrect funds
- Numerous code corrections were performed by the Treasurer during the audit period to reallocate expenditures from one special cost center to another, however sufficient documentation was not maintained to document the reasoning for the code correction
- Code corrections, when performed to reallocate expenditures to another cost center, were not always posted to the object code from which the original expenditures were posted
- Numerous advances were posted within federal funds

This resulted in difficulty in preparing the schedule of federal awards receipts and expenditures and testing of grant requirements for Title I and IDEA B. In addition, this could result in difficulty in preparing final expenditure reports for the various federal grant programs and could result in final expenditure reports being inaccurate.

Also, new auditor independence standards adopted by the United States General Accounting Office (GAO) limit an independent auditor's ability to provide nonaudit services to audit clients. As a result of the new standards, the audit team will no longer be able to compile the information to prepare the schedule of federal awards expenditures for the School District as of the audit of the financial statements for fiscal year 2004.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-014 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation - Preparation of Federal Schedule (Continued)

We recommend the School District Treasurer accurately prepare the Schedule of Federal Awards Receipts and Disbursements. We further recommend the School District Treasurer properly monitor grant activity and utilize separate funds and cost centers for federal grant programs. The School District Treasurer should maintain accurate documentation of the total receipts and expenditures from each of the various grants and supporting documentation should be maintained to support the posting of code correction entries. In addition, the School District Treasurer should maintain all grant information including a copy of the application, grant agreement, drawdowns final expenditure reports, etc. The collection and maintenance of such information would help to enable the School District to ensure the fair presentation of the Federal Schedule as well as compliance with applicable laws, regulations, and/or individual grant requirements.

Finding Number	2003-015
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Grant Accountability

Several deficiencies were noted while testing federal intergovernmental receipts. We have listed each deficiency below based on the type of deficiency:

A. Supportive Documentation

Supportive documentation such as remittance advices were not on file for all federal receipts received during the audit period. In addition, duplicate receipts were not consistently issued and when they were issued, did not include an accurate description of the receipt received or the fund to be posted. This could result in an inability to support amounts posted to the School District's revenue line items and resulted in amounts being posted to the wrong fund, line item, program, etc.

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-015 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Grant Accountability (Continued)

A. Supportive Documentation (Continued)

We recommend that supportive documentation be maintained for all federal funds received. We recommend when issued, duplicate receipts should include an accurate description of the funds received including grant name, CFDA #, grant year, etc. In addition, duplicate receipts should be signed by the School District Treasurer to indicate approval / agreement with the information contained on the duplicate receipt.

B. Posting of Funds

We noted several receipts which were posted to the wrong fund. This could result in an inability to account for amounts received and difficulty in monitoring the program. In addition, this could further lead to unallowable expenditures being made with the incorrectly posted funds.

We recommend the School District Treasurer utilize the guidelines in the USAS Manual and thoroughly review receipts prior to posting to determine the proper source and description of funds which will aid the School District Treasurer in posting the funds to the proper account. We further recommend the School District Treasurer review budget versus actual revenue reports to identify unusual relationships which will aid the School District Treasurer in identifying incorrectly posted funds. In addition, we recommend the School District Treasurer review accounts for which monies were improperly posted to ensure expenditures charged to those funds were allowable or for the proper purpose to ensure grant monies are being used for the reasons intended.

C. System for Maintaining Records

While testing federal receipts, we found the School District Treasurer does not utilize a centralized location/system for maintaining information concerning the various grants received by the School District. For example, a separate file is not maintained for each grant which includes that various information and correspondence surrounding the grant or funding.

We recommend the School District Treasurer utilize a central location / system for all grants received by the School District. This system should include maintaining a separate file for each type of grant which includes the following: correspondence from granting/oversight agency; guidelines for administering the grant; assurances made to the granting/oversight agency; duplicate receipts with remittances attached and final expenditure reports.

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-015 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Grant Accountability (Continued)

D. Utilization of Cost Centers

We noted the School District did not properly utilize the special cost centers to track expenditures for all School District funds. There were several instances where expenditures were being posted to the incorrect cost center and resulted in improper reporting to their granting agencies. The School District should utilize cost centers to separately track each grant year. This will allow for monitoring of each year and allow for proper reporting to their granting agencies.

We recommend the School District monitor activities to ensure that posting of expenditures are made to the correct special cost center and utilize this system to perform all reporting to their granting agencies. We further recommend the School District Treasurer review and amend Federal Final Expenditure Reports if necessary.

E. Community Alternative Funding Program (CAFS)

The School District received funding through the Community Alternative Funding Program (CAFS) for services provided by their employees to the various school districts' students. The funding, which is paid through Medicaid, is reimbursed based on paperwork filled out by School District Employees stating what services were given to each of the students. This paperwork is submitted by the employees to the Superintendents' office, who then forwards it onto Health Care Billing Services.

This company was hired by the School District to do all the billing and reporting required by Medicaid for reimbursement. However, the School District did not maintain documentation that they provided eligible services to eligible recipients. This could result in an inability to account for amounts received and difficulty in monitoring the CAFS program.

We recommend the School District maintain copies of CAFS paperwork in the Administrative Office for review purposes. We further recommend the School District begin monitoring Health Care Billing Service Reports to ensure monies received agree to the amounts billed. This process should include ensuring that the billings are in line with what was originally submitted.

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)

Finding Number	2003-016
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-03 6BSF-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Project Cash Requests and Monitoring of Cash Flows

Project cash requests (PCR) are submitted to the Ohio Department of Education (ODE) for draw downs of monies for approved Federal programs. The first payment is initiated by the Ohio Department of Education. Subsequent payments must be requested by the School District. Except for the initial PCR, cash requests are limited to one month (up to 10% of the approved budget amount) plus any negative balance (amount by which program expenditures exceed project cash received to date).

Per the Ohio Department of Education's reporting guidelines, the School District can submit PCR's throughout the year as needed. The PCR's are limited to one month (up to 10% of the approved budget amount) plus any negative balance (amount by which program expenditures exceed project cash received to date). Other than the initial PCR initiated by ODE, the School District Treasurer submitted in May 2003 only one cash request for the grant period for Title I and IDEA B. This resulted in the School District Treasurer posting advances totaling \$398,327 to Fund 572 (Title I) and advances totaling \$18,811 to Fund 516 (IDEA B) to avoid negative fund balances. While it is not improper to advance money to these funds, the funds advanced could have been utilized for other School District purposes. Since there were sufficient funds available through these programs to be requested utilizing PCR's in order to avoid these advances, it indicates a lack of cash management procedures for monitoring their grants.

In addition, supporting documentation was not maintained for the receipts and expenditures reported on the project cash requests. This resulted in errors going undetected.

We recommend the School District Treasurer monitor cash flows for each Federal program and submit timely project cash requests to minimize the time elapsing between the receipt of Federal monies and their disbursement. This will eliminate the need to post multiple advances to avoid negative balances. In addition, we recommend that the School District Treasurer maintain supporting documentation for receipts and disbursements reported to ODE.

We noted during review of the both the Title I grant and the IDEA B grant, that proper cash management was not being maintained. The Project Cash Request forms were not supported by the accounting records. Below are the variances that were noted:

Date of Request	Expenditure per PCR	Expenditure per system	Variance	Grant
5/29/03	\$531,863	\$506,528	\$25,335	Title I
5/29/03	\$210,169	\$148,887	\$61,282	IDEA B

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-017
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting

Ohio Department of Education’s Consolidated Application Assurances item 5 provides that (Local Education Agency) LEA’s will make reports to ODE as may be reasonably necessary to enable ODE to perform its duties.

Program funds are reported to the State of Ohio. There are two forms the School District must file:

- Project cash request
- Final expenditure report (FER)

The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Failure to submit the report in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed.

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

The Final Expenditure Report submitted for IDEA B for grant year 02 was made to reflect what the budgeted figures were. The FER should have reported expenditures per the School District’s accounting system. Below is a comparison of the reported figures and actual figures for the 2002 grant year final expenditure report.

Grant	Fund and Object Level	Expenditures per FER	Expenditure per system	Variance
IDEA B	516-100	\$53,488	\$46,589	\$6,899
IDEA B	516-200	\$24,510	\$22,971	\$1,539
IDEA B	516-400	\$65,170	\$32,504	\$32,666
IDEA B	516-500	\$28,700	\$21,604	\$7,096
IDEA B	516-600	\$15,000	\$25,463	<u>\$(10,463)</u>
			Total IDEA B	\$37,737

**SOUTH POINT LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)

Finding Number	2003-017 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010 and Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting (Continued)

The Final Expenditure Reports submitted for Title I and IDEA B for grant year 03 were made to reflect what the budgeted figures were except for 572-400. Below is a comparison of the reported figures and actual figures for the 2003 grant year final expenditure report.

Grant	Fund and Object Level	Expenditures per FER	Expenditure per system	Variance
IDEA B	516-100	\$78,813	\$47,049	\$31,764
IDEA B	516-200	\$36,371	\$22,436	\$13,935
IDEA B	516-400	\$64,450	\$41,991	\$22,459
IDEA B	516-500	\$37,477	\$45,471	\$(7,994)
IDEA B	516-600	\$21,663	\$34,961	\$(13,298)
			Total IDEA B	\$46,866
Title I	572-100	\$423,761	\$493,025	\$(69,264)
Title I	572-200	\$101,449	\$122,269	\$(20,820)
Title I	572-400	\$18,268	\$13,995	\$4,273
	572-500	\$33,650	\$45,353	\$(11,703)
	572-600	\$15,430	\$15,420	\$10
			Total Title I	\$(97,504)

For IDEA-B, the variances for fund and object level codes 516-500 and 516-600 are included in the questioned costs for period of availability in Finding Number 2003-020.

For Title I, the variances for fund and object level codes 572-100, 572-200 and 572-500 are included in the questioned costs for period of availability in Finding Number 2003-021.

Improper reporting of expenditures is in non compliance with the aforementioned federal requirements. This could have an adverse affect on future federal funding for the School District.

We recommend the School District report to the Ohio Department of Education only those expenditures that can be supported with the School District's accounting system. We would further recommend that the School District contact the Ohio Department of Education and submit an amended Final Expenditure Report for the 2003 grants.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-018
CFDA Title and Number	Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Cash Management

34 CFR 80.21 states, in pertinent part:

- (a) Scope - this section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.
- (b) Basic standard - methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.
- (c) Advances - grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

The first payment is initiated by the Ohio Department of Education. Subsequent payments must be requested by the LEA as needed using the online Project Cash Request (PCR).

Except for the initial PCR, cash requests are limited to one month (up to 10% of the approved budget amount) plus any negative balance (amount by which program expenditures exceed project cash received to date). ODE requires written explanation for monthly cash advance requests which exceed the 10% limit. Additionally, written explanations are required for cash advance requests when the balance on hand exceeds 10% of the approved budget amount. (Authority: ODE online Project Cash Request form)

Funds are to be expended within the period of time for which they are requested (e.g. funds requested for January should be expended or encumbered during January).(Authority: ODE online Project Cash Request form)

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)

Finding Number	2003-018 (Continued)
CFDA Title and Number	Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	C1S1-02/03 6BSF-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Cash Management (Continued)

They did not properly utilize their cost centers and due to that, they accumulated cash balances in old cost centers. A cost center is a sub-account within a fund which is utilized to track grants separately based on the fiscal year of the grant. Below is a listing of cost centers that, based on the year of the grant and their final expenditure reports, should not have had balances remaining as of June 30, 2003.

Fund-Cost Center	Description of the Grant/Fund	Fund Cash Balance as of June 30, 2003
516-9000	IDEA-B – Fiscal Year 2002	\$ 1,432
516-9001	IDEA-B – Fiscal Year 2002	118,578
516-9003	IDEA-B – Fiscal Year 2003	<u>42,137</u>
Total		<u>\$162,147</u>

Based on the fact that these fund balances should not be in existence as of June 30, 2003 according to their grant years and final expenditure reports, we will issue the total of \$162,147 as a questioned cost.

These deficiencies, for both federal programs, were a direct result of a lack of monitoring controls over the cash flows. There appeared to be no monitoring of these funds in the School District Treasurer's office. Without proper cash management, the School District runs a risk of losing federal funding or having to return it back to the Ohio Department of Education.

We would propose the following recommendations to be implemented to address the issues noted above:

- All cash request forms should be based on records from the accounting system. Support for each request should be maintained on file by the School District Treasurer's office.
- The School District should review the fund balances noted above to determine the source of the funding. Once this is determined, we recommend the School District contact the Ohio Department of Education to determine what course of action should be taken to distribute the monies to the correct parties. Once the items noted above are addressed, we would recommend the School District eliminate all unnecessary cost centers and begin monitoring the balances each month to allow for proper cash management of federal monies.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-019
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010
Federal Award Number / Year	C1S1-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs – Allowable Costs/Cost Principles

The School District agreed to abide by the budget that was included as part of the 2003 Consolidated Application when they entered into the agreement with the Ohio Department of Education. The School District exceeded its approved budget for salaries, fringe benefits and supplies. They did not prepare a revised budget and submit it for approval to make such expenditures. The School District only requested and received \$592,557 of the approved allocation of \$606,942. The remaining portion was carried over to the fiscal year 2004 grant.

The School District overspent their 2003 grant year allowable budget as follows:

Object Code	100 Salaries	200 Fringe Benefits	400 Purchased Services	500 Supplies	600 Capital Outlay	Total
Grant year 03 actual expenditures	\$493,025	\$122,269	\$13,996	\$45,353	\$15,420	\$690,063
Budget	\$423,761	\$101,449	\$32,652	\$33,650	\$15,430	\$606,942
10% Budget Allowance	\$42,376	\$10,145	\$3,265	\$3,365	\$1,543	\$60,694
Under/(Over) Budget plus Budget Allowance	(\$26,888)	(\$10,675)	\$21,921	(\$8,338)	\$1,553	(\$22,427)

The overspending of Title I monies is partially due to the following unallowable expenditures:

Salaries and Fringe Benefits

The Title I budget approved for the School District included an allocation for salary and fringe benefits for ten certified teachers. However, the salaries and fringe benefits for eleven teachers were charged to Title I in FY03.

The average annual salary for the eleven teachers paid from Title I was \$41,451. The average amount of fringe benefits budgeted for one teacher was \$10,145.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-019 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010
Federal Award Number / Year	C1S1-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs – Allowable Costs/Cost Principles (Continued)

Even though the School District only exceeded the budget for salaries by \$26,888 and the budget for fringe benefits by \$10,675 for a total of \$37,563, based on the fact that eleven teachers were paid from Title I monies instead of ten that were approved in the budget, the total salary and fringe benefits for one teacher in the amount of \$51,596 is considered a questioned cost.

Purchased Services

Title I Part A requires an LEA to use funds only in eligible school/attendance areas and training/professional development cost are allowable if specifically related to the Part A program and designed to meet the specific educational needs of Part A participants.

One hundred twenty steaks and one hundred chicken breasts in the amount of \$819 were purchased with Title I grant monies to grill for a professional development luncheon for the School District held in conjunction with professional development training.

OMB Circular A-87, Attachment B, Item 27 permits meal costs related to a meeting, however the School District allocated the entire cost of the luncheon to the Title I program. Per the 2003 Consolidated Application with the Ohio Department of Education, the High School was not eligible for Title I funds. The cost of the luncheon was not prorated to account for only Title I eligible individuals participating in the professional development training.

Even though the School District did not exceed their approved allocation for purchased services, based on the fact that the food was for the entire professional staff of the School District, the purchase in the amount of \$819 is considered a questioned cost.

Supplies

During the audit period, the School District made a purchase out of Title I Fund 572-9003 to Dell Computer Corporation in the amount of \$15,420. This purchase was for twenty-one computers. One computer in the amount of \$980 was initially used by the technology coordinator and then given to the Superintendent for his use.

This unallowable expenditure is included in the questioned costs of \$8,338 for the School District exceeding its budget as approved as part of the School District's 2003 Consolidated Application for supplies as noted in the above table.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-019 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010
Federal Award Number / Year	C1S1-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs – Allowable Costs/Cost Principles (Continued)

Total questioned costs are:

Salaries and Fringe Benefits	\$51,596
Purchased Services	819
Supplies	<u>8,338</u>
Total	<u>\$60,753</u>

We recommend the School District ensure that all expenditures made from federal funds are for an allowable purpose in accordance with the grant guidelines. We would further recommend the School District Treasurer and Federal Programs Director monitor salaries paid from Title I monies to ensure that the salaries and benefits being charged to Title I are for the correct teachers and the approved amount of teachers.

Finding Number	2003-020
CFDA Title and Number	Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	6BSF-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles

The School District agreed to abide by the budget that was included as part of the 2003 Consolidated Application when they entered into the agreement with the Ohio Department of Education. The School District exceeded its approved budget for supplies and capital outlay. They did not prepare a revised budget and submit it for approval to make such expenditures.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)

Finding Number	2003-020 (Continued)
CFDA Title and Number	Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	6BSF-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles (Continued)

The School District overspent their 2003 grant year allowable budget as follows:

Object Code	100 Salaries	200 Fringe Benefits	400 Purchased Services	500 Supplies	600 Capital Outlay	Total
Grant year 03 actual expenditures	\$47,049	\$22,437	\$41,991	\$45,471	\$34,961	\$191,909
Budget	\$78,813	\$36,371	\$64,450	\$37,477	\$21,663	\$238,774
10% Budget Allowance	\$7,881	\$3,637	\$6,445	\$3,748	\$2,166	\$23,877
Under/(Over) Budget plus Budget Allowance	\$39,645	\$17,571	\$28,904	(\$4,246)	(\$11,132)	\$70,742

In addition to the overspending of IDEA B monies for supplies and capital outlay, we noted the following unallowable expenditures:

Purchased Services

1. The School District pays an annual membership fee to the Coalition of Rural and Appalachian Schools. This Coalition deals with school funding issues.

In FY03, this membership was paid from IDEA B grant monies. Based on the fact that this does not benefit children with disabilities, this is a questioned cost in the amount of \$300.

2. The School District contracts with the Lawrence County Educational Service Center annually for provision of an alternative school for children with behavior problems. The School District paid \$12,476 from IDEA B grant monies for this contract. This annual fee was for all School District students that attended the alternative school not just students with disabilities. The School Treasurer could not provide documentation as to whether any children with disabilities were sent to the alternative school in order to determine what portion of this contract should have been paid from IDEA B grant monies.

Based on the fact we were unable to determine this benefited children with disabilities, this is a questioned cost in the amount of \$12,476.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-020 (Continued)
CFDA Title and Number	Special Education – Grants to States (IDEA B) 84.027
Federal Award Number / Year	6BSF-03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles (Continued)

3. The School District paid the registration fee for the Federal Programs Director to attend the IDEA B Spring Conference. However, the early registration discount in the amount of \$20 was not taken. This is a questioned cost in the amount of \$20.

Supplies

Food was purchased from Valley Wholesale Foods to provide breakfast for the entire school during the week of proficiency examinations. The School District paid \$832 from IDEA B grant monies for this food.

In addition to being unallowable, this expenditure is included in the questioned costs of \$4,246 for the School District exceeding its budget for supplies.

Total questioned costs are:

Purchased Services	\$12,796
Supplies	4,246
Capital Outlay	<u>11,132</u>
Total	<u>\$28,174</u>

We recommend the School District ensure that all expenditures made from federal funds are approved by the Superintendent or the Federal Coordinator and are for an allowable purpose in accordance with the grant guidelines. We would further recommend the School District review the cost centers to ensure expenditures are made for the appropriate grant year.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-021
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010
Federal Award Number / Year	C1S1-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability of Federal Funds

20 U.S.C. 1225 (b) (2) states that any funds under any applicable program which, pursuant to paragraph (1) are available for obligation and expenditure in the year succeeding the fiscal year for which they were appropriated shall be obligated and expended in accordance with

- (A) the Federal statutory and regulatory provisions relating to such program which are in effect for such succeeding fiscal year, and
- (B) any program plan or application submitted by such educational agencies or institutions for such program for such succeeding fiscal year.

In Ohio, programs included in ODE's Consolidated Application have a project period starting with the application approval date through June 30. Any carryover to the subsequent school district fiscal year must be approved by ODE. (OMB Circular A-133, Appendix B: Compliance Supplement)

Definition of Obligation: An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for. (OMB Circular A-133, Appendix B: Compliance Supplement)

The act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute a final obligation (GEPA Section 421(b)) (34 CFR sections 76.704 through 76.707)). (OMB Circular A-133, Appendix B: Compliance Supplement)

Obligations must be liquidated prior to submitting the Final Expenditure Report, which must be filed no later than 90 days after the end of the project period. (ODE Federal Fiscal Report Procedures #1 and ODE Superintendent Weekly E-mail, December 6, 2002).

The Title I funds had a net beginning balance on July 1, 2002 of (\$46,543). The School District received \$158,468 for grant year 02. Grant year 02 disbursements totaled \$113,141 respectively. This overspending in the amount of \$1,216 indicates that grant year 02 expenditures were charged against grant year 03 monies after the expiration of the available 02 expenditure period.

The School District received \$592,557 for grant year 03. Grant year 03 disbursements totaled \$690,063. This overspending in the amount of \$97,506 indicates that grant year 03 expenditures were charged against grant year 04 monies after the expiration of the available 03 expenditure period.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS (Continued)
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Finding Number	2003-021 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies (Title I) 84.010
Federal Award Number / Year	C1S1-02/03
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability of Federal Funds (Continued)

This represents total questioned costs in the amount of \$98,722 (\$1,216 + \$97,506).

The School District Treasurer should review each purchase order and ensure that it is properly account coded prior to certifying funds are available for expenditure. This would include reviewing the cost center to ensure that the expenditure is for the proper grant period.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	7 C.F.R. Part 210.02 and C.F.R. 210.14 (a) – interest earnings were not allocated which resulted in a finding for adjustment against the General Fund in favor of the Food Service Fund.	No.	Not corrected. Reissued as Finding 2003-002.
2002-002	Ohio Rev. Code Section 5705.10 – negative fund balances throughout the year.	No.	Partially corrected. Immaterial variances noted. Noncompliance citation was included in the management letter.
2002-003	Ohio Rev. Code Section 5705.36 – School District did not certify to the County Auditor the total amount from all sources available for expenditure from each fund.	Yes.	
2002-004	Ohio Rev. Code Section 5705.38 – Board of Education did not pass its annual appropriations until June 25, 2002 for the fiscal year ending June 30, 2002.	Yes.	
2002-005	Ohio Rev. Code Section 5705.39 – appropriations exceeded total estimated revenue.	No.	Not corrected. Reissued as Finding 2003-008.
2002-006	Ohio Rev. Code Section 5705.41 (B) – all disbursements incurred prior to June 25, 2002 were in excess of appropriations due to the annual appropriations not being approved until June 25, 2002.	No.	Partially corrected. Immaterial variances noted. Noncompliance citation was included in the management letter.
2002-007	Capital asset listing not properly maintained by the School District during the audit period.	No.	Not corrected. Reissued as Finding 2003-011.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-008	Several deficiencies found while testing state and federal grants included grants receivable listing not maintained, several duplicate receipts were not available, several bank deposits were not available, all cash requests (except one) were not available, several grant award letters were not on file, most federal remittances were not available, and special cost centers were not utilized and monitored properly.	No.	Not corrected. Reissued as Finding 2003-014 and 2003-015.
2002-009	Payroll account was not reconciled during the audit period.	No.	Not corrected. Reissued as Finding 2003-012.
2002-010	General operating account was not reconciled during the audit period.	No.	Not corrected. Reissued as Finding 2003-013.
2002-011	The School District spent \$17,817 over what was budgeted for Title I fringe benefits which resulted in a questioned cost.	No.	Not corrected. A questioned cost was issued for Title I as Finding 2003-019.
2002-012	The School District posted \$54,790 of Class Size Reduction monies received into the Title I fund. This money was used to pay for Title I teachers' salaries and fringe benefits. This resulted in a questioned cost and finding for adjustment against the Title I Fund in favor of the Class Size Reduction Fund.	Yes.	
2002-013	Several deficiencies were found while testing state and federal grants.	No.	Not corrected. Reissued as Finding 2003-014 and 2003-015.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-014	Some figures on the Final Expenditure Report for Title I did not agree to the accounting records to support total expenditures.	No.	Not corrected. Reissued as Finding 2003-017.
2002-015	School District did not properly use the special cost centers to track expenditures.	No.	Not corrected. Reissued as Findings 2003-018 and 2003-015.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The School District Treasurer intends to remit funds to the Ohio School Facilities Commission.	September 30, 2004	Dan McDavid, School District Treasurer
2003-002	The School District Treasurer intends to properly allocate interest to the food service fund.	September 30, 2004	Dan McDavid, School District Treasurer
2003-003	The School District Treasurer intends to review special education spending for miscoding and to contact the Ohio Department of Education for additional information.	September 30, 2004	Dan McDavid, School District Treasurer
2003-004	The School District Treasurer intends to annually set aside the required amount for textbook and instructional materials.	September 30, 2004	Dan McDavid, School District Treasurer
2003-005	The School District Treasurer intends to annually set aside the required amount for capital improvements and maintenance.	September 30, 2004	Dan McDavid, School District Treasurer
2003-006	The School District Treasurer intends to have the Board of Education approved advances by resolution and indicate the purpose of the advances and the time frame for repayment.	September 30, 2004	Dan McDavid, School District Treasurer
2003-007	The School District Treasurer intends to monitor estimated and actual receipts throughout the year and obtain an amended certificate as needed.	September 30, 2004	Dan McDavid, School District Treasurer
2003-008	The School District Treasurer intends to obtain the certificate of estimated resources and monitor appropriations versus estimated resources.	September 30, 2004	Dan McDavid, School District Treasurer
2003-009	The School District Treasurer intends to execute and obtain 412 certifications for required items.	September 30, 2004	Dan McDavid, School District Treasurer
2003-010	The School District Treasurer intends to provide the Board of Education with budget versus actual revenue and expenditure reports for their review to monitor the financial activity. The School District Treasurer intends to note the Board of Education's review and approval of the financial information in the minute record.	September 30, 2004	Dan McDavid, School District Treasurer

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-011	The School District Treasurer intends to properly maintain and monitor capital assets deletions, transfers and additions.	September 30, 2004	Dan McDavid, School District Treasurer
2003-012	The School District Treasurer intends to reconcile the payroll account on a monthly basis and follow up on any outstanding or reconciling items.	September 30, 2004	Dan McDavid, School District Treasurer
2003-013	The School District Treasurer intends to reconcile the general account on a monthly basis and follow up on any outstanding or reconciling items.	September 30, 2004	Dan McDavid, School District Treasurer
2003-014	The School District Treasurer to accurately prepare the Federal Schedule and maintain supporting documentation of all grant information.	September 30, 2004	Dan McDavid, School District Treasurer
2003-015	The School District Treasurer intends to monitor state and federal grant activity and use separate funds and cost centers to track the revenue and expenditure activity for the grants.	September 30, 2004	Dan McDavid, School District Treasurer
2003-016	The School District Treasurer intends to monitor cash flows for federal programs, submit timely project cash requests and maintain supporting documentation for receipts and disbursements.	September 30, 2004	Dan McDavid, School District Treasurer
2003-017	The School District Treasurer intends to use system generated reports to complete the Final Expenditure Report and maintain reports to support the figures.	September 30, 2004	Dan McDavid, School District Treasurer
2003-018	The School District Treasurer intends to monitor federal grant activities and balances to ensure posting of expenditures are made to correct cost centers and use the system to report to the State and other agencies.	September 30, 2004	Dan McDavid, School District Treasurer
2003-019	The School District Treasurer intends to monitor Title I expenditures to ensure amounts expended are within the budget and allowable.	September 30, 2004	Dan McDavid, School District Treasurer
2003-020	The School District Treasurer intends to monitor Special Education expenditures to ensure amounts are allowable and within budgeted amounts.	September 30, 2004	Dan McDavid, School District Treasurer
2003-021	The School District Treasurer intends to monitor Title I expenditures to ensure amounts are obligated within the proper time periods.	September 30, 2004	Dan McDavid, School District Treasurer



**Auditor of State
Betty Montgomery**

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SOUTH POINT LOCAL SCHOOL DISTRICT

LAWRENCE 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
SEPTEMBER 21, 2004**