

JACKSON CITY SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2004

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Jackson City School District
450 Vaughn Street
Jackson, Ohio 45640

We have reviewed the *Independent Auditor's Report* of the Jackson City School District, Jackson County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 5, 2005

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JACKSON CITY SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Jackson City School District:

We have audited the accompanying financial statements of Jackson City School District (the School District) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on the basis of accounting formerly prescribed or permitted by the Auditor of State of Ohio for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. The basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and fund cash balances of the Jackson City School District as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying schedule of expenditures of federal awards is presented for purposes of 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
March 15, 2005

JACKSON CITY SCHOOL DISTRICT

Combined Statement of Cash, Investments and Fund Cash Balances

June 30, 2004

Cash	\$ 10,351,592
Investments:	
Certificates of deposit	11,144,484
StarOhio	<u>11,771,204</u>
Total	\$ <u>33,267,280</u>

CASH BALANCES BY FUND TYPE:

Governmental funds:	
General	\$ 2,924,619
Special revenue	658,200
Debt service	(203,136)
Capital projects	26,677,521
Proprietary funds:	
Enterprise	71,717
Fiduciary funds:	
Expendable trust	1,156,443
Nonexpendable trust	1,315,846
Agency	<u>666,070</u>
Total	\$ <u>33,267,280</u>

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

JACKSON CITY SCHOOL DISTRICT

Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances
All Governmental and Similar Fiduciary Fund Types
Year Ended June 30, 2004

	Governmental Fund Types				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Receipts:						
Receipts from local sources:						
Taxes	\$ 4,044,467	-	819,178	614,416	-	5,478,061
Tuition	487,174	-	-	-	-	487,174
Earnings on investments	17,639	-	-	396,210	39,245	453,094
Extracurricular activities	(998)	275,046	-	200	319,126	593,374
Classroom materials and fees	3,055	-	-	-	1,939	4,994
Miscellaneous	65,760	25	-	-	44,133	109,918
Receipts from state sources:						
Unrestricted grants-in-aid	11,954,475	-	91,371	66,073	-	12,111,919
Restricted grants-in-aid	19,818	371,064	-	15,844,616	1,450	16,236,948
Receipts from federal sources:						
Restricted grants-in-aid	89,173	1,178,875	-	-	-	1,268,048
Total receipts	<u>16,680,563</u>	<u>1,825,010</u>	<u>910,549</u>	<u>16,921,515</u>	<u>405,893</u>	<u>36,743,530</u>
Disbursements:						
Instruction:						
Regular	8,066,630	298,935	-	2,400	5,893	8,373,858
Special education	999,139	1,049,840	-	-	4,283	2,053,262
Vocational education	104,581	-	-	-	-	104,581
Other instruction	8,108	-	-	-	-	8,108
Support services:						
Pupil	643,795	11,943	-	-	-	655,738
Instructional staff	820,563	36,117	-	-	-	856,680
Board of Education	137,815	-	-	-	-	137,815
Administration	1,510,958	68,706	-	-	-	1,579,664
Fiscal	561,385	4,808	26,298	20,378	156	613,025
Business	53,136	-	-	-	-	53,136
Operation and maintenance of plant	1,879,543	-	-	123,990	-	2,003,533
Pupil transportation	1,044,873	-	-	130,070	-	1,174,943
Central	5,481	415	-	-	-	5,896
Non-instructional services:						
Community service	-	395	-	-	9,539	9,934
Extracurricular activities	335,099	295,260	-	-	2,163	632,522
Facilities acquisition and construction	17,705	-	-	22,263,146	2,767	22,283,618
Debt Service:						
Repayment of debt	-	-	1,163,222	-	-	1,163,222
Total disbursements	<u>16,188,811</u>	<u>1,766,419</u>	<u>1,189,520</u>	<u>22,539,984</u>	<u>24,801</u>	<u>41,709,535</u>
Excess of receipts over (under) disbursements	<u>491,752</u>	<u>58,591</u>	<u>(278,971)</u>	<u>(5,618,469)</u>	<u>381,092</u>	<u>(4,966,005)</u>
Other financing sources (uses):						
Transfers in	-	89,326	500,000	3,305,070	9,183	3,903,579
Transfers out	(370,713)	(705,659)	(500,000)	(787,727)	(1,537,977)	(3,902,076)
Proceeds from lease-purchase agreement	-	-	-	3,200,000	-	3,200,000
Sale and loss of assets	2,003	-	-	-	-	2,003
Refund of prior year expenditures	150	-	-	-	-	150
Total other financing sources (uses):	<u>(368,560)</u>	<u>(616,333)</u>	<u>-</u>	<u>5,717,343</u>	<u>(1,528,794)</u>	<u>3,203,656</u>
Excess of receipts and other sources over (under) disbursements and other (uses)	123,192	(557,742)	(278,971)	98,874	(1,147,702)	(1,762,349)
Fund cash balance, beginning of year	2,801,427	1,215,942	75,835	26,578,647	2,304,145	32,975,996
Fund cash balance, end of year	\$ <u>2,924,619</u>	<u>658,200</u>	<u>(203,136)</u>	<u>26,677,521</u>	<u>1,156,443</u>	<u>31,213,647</u>

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

JACKSON CITY SCHOOL DISTRICT

Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances

All Proprietary Funds and Similar Fiduciary Fund Types

Year Ended June 30, 2004

	Proprietary	Fiduciary Fund Type		Total
	Fund Type	Nonexpendable		(Memorandum
	Enterprise	Trust	Agency	Only)
Operating receipts:				
Tuition	\$ 30,520	-	-	30,520
Earnings on investments	-	57,918	-	57,918
Food service	369,402	-	-	369,402
Extracurricular activities	12,383	-	142,379	154,762
Miscellaneous	-	12,627	-	12,627
Total operating receipts	412,305	70,545	142,379	625,229
Operating disbursements:				
Personal services - salaries	348,844	-	-	348,844
Employees' retirement and insurance	151,012	-	-	151,012
Purchased services	22,986	-	6,655	29,641
Supplies and materials	268,502	5,062	154,912	428,476
Capital outlay	10,420	-	-	10,420
Capital outlay - replacement	426	-	-	426
Other	285	35,655	(50)	35,890
Total operating disbursements	802,475	40,717	161,517	1,004,709
Excess of operating receipts over (under) operating disbursements	(390,170)	29,828	(19,138)	(379,480)
Nonoperating receipts:				
State restricted grants-in-aid	68,605	-	-	68,605
Federal unrestricted grants-in-aid	277,931	-	-	277,931
Total nonoperating receipts	346,536	-	-	346,536
Excess of receipts over (under) disbursements before transfers	(43,634)	29,828	(19,138)	(32,944)
Transfers out	-	-	(1,503)	(1,503)
Net excess of receipts over (under) disbursements	(43,634)	29,828	(20,641)	(34,447)
Beginning fund cash balance	115,351	1,286,018	686,711	2,088,080
Ending fund cash balance	\$ 71,717	1,315,846	666,070	2,053,633

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

JACKSON CITY SCHOOL DISTRICT

Combined Statement of Receipts - Budget and Actual

All Budgeted Fund Types

Year Ended June 30, 2004

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental funds:			
General	\$ 16,660,721	16,682,716	21,995
Special revenue	1,913,722	1,914,336	614
Debt service	1,410,549	1,410,549	-
Capital projects	23,446,446	23,426,585	(19,861)
Proprietary funds:			
Enterprise	758,765	758,841	76
Fiduciary Funds:			
Expendable trust	413,036	415,076	2,040
Nonexpendable trust	70,545	70,545	-
Agency	<u>140,940</u>	<u>142,379</u>	<u>1,439</u>
Total (Memorandum Only)	\$ <u>44,814,724</u>	<u>44,821,027</u>	<u>6,303</u>

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

JACKSON CITY SCHOOL DISTRICT

Combined Statement of Disbursements Compared with Expenditure Authority

All Budgeted Fund Types

Year Ended June 30, 2004

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>	<u>Disbursements</u>	<u>Encumbrances Outstanding at 6/30/04</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental funds:							
General	\$ 48,212	16,731,746	16,779,958	16,559,524	225,356	16,784,880	(4,922)
Special revenue	104,853	2,417,809	2,522,662	2,472,078	50,406	2,522,484	178
Debt service	-	1,291,490	1,291,490	1,689,520	-	1,689,520	(398,030)
Capital projects	364,431	30,416,204	30,780,635	23,327,711	7,452,924	30,780,635	-
Proprietary funds:							
Enterprise	-	803,656	803,656	802,475	1,181	803,656	-
Fiduciary Funds:							
Expendable trust	1,299	1,569,873	1,571,172	1,562,778	8,319	1,571,097	75
Nonexpendable trust	439	41,702	42,141	40,717	1,261	41,978	163
Agency	462	172,756	173,218	163,020	10,198	173,218	-
Total (Memorandum Only) \$	<u>519,696</u>	<u>53,445,236</u>	<u>53,964,932</u>	<u>46,617,823</u>	<u>7,749,645</u>	<u>54,367,468</u>	<u>(402,536)</u>

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

JACKSON CITY SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Jackson City School District (the "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 Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services to approximately 2,700 students and community members as authorized by state statute and/or federal guidelines.

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with three organizations, two of which are defined as jointly governed organizations, and one is an insurance purchasing pool. These organizations include Southeastern Ohio Voluntary Education Cooperative, the Gallia-Jackson-Vinton Joint Vocational School District, Southeastern and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Basis of Accounting

Although required by the Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America, the School District has prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

Fund Accounting

The School District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. The transactions of each fund are reflected in a self-balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed.

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 general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Proprietary Fund Types:

Proprietary funds are used to account for the School District's ongoing activities that are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust funds, nonexpendable trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

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

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003 unencumbered fund balances. However, those fund balances were available for appropriation. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The budgeted receipts in the financial statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Individual fund integrity is maintained throughout the School District's records. Following Ohio statutes, the Board of Education has by resolution, specified the funds to receive an allocation of interest earnings.

During fiscal year 2004, investments were limited to STAROhio and certificates of deposit. Investments are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

Capital Assets

Property, plant, and equipment acquired or constructed by the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

Compensated Absences

Accumulated unpaid vacation leave, sick leave, and personal leave are not accrued under the cash basis of accounting as described in Note 1. All leave will either be utilized by time off from work or, within certain limitations, be paid to employees.

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by a federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: At year-end, the carrying amount of the School District's deposits was \$21,496,076 and the bank balance was \$21,649,517. Of the bank balance, \$200,000 was covered by federal depository insurance and \$21,449,517 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department, but not in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are categorized to give an indication of the level of risk assumed by the School District at 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 that are held by the counter party'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 counter party, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio of \$11,771,204 at June 30, 2004 is unclassified because it is not evidenced by securities that exist in physical or book entry form.

3. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 1998. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations.

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

	<u>2003 Second-Half Collections</u>		<u>2004 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 173,205,260	80.29%	175,550,460	81.13%
Public Utility	13,103,250	6.07%	13,411,740	6.20%
Tangible Personal Property	<u>29,426,725</u>	13.64%	<u>27,414,781</u>	12.67%
Total Assessed Value	\$ <u>215,735,235</u>	100.00%	<u>216,376,981</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$27.80		\$27.80

4. DEBT

Classroom Facilities Improvements Bonds – General obligation bonds were issued for the purpose of building a new high school, two elementary schools, and renovating other existing buildings. The outstanding bonds of \$13,204,058 as of June 30, 2004 bear interest at rates ranging from 3.25% to 5.50% with final payment on December 1, 2027. Principal and interest requirements to retire general obligation bonds are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 225,000	670,032	895,032
2006	250,000	662,045	912,045
2007	290,000	652,670	942,670
2008	315,000	641,360	956,360
2009	330,000	628,603	958,603
2010-2014	1,275,995	3,790,657	5,066,652
2015-2019	1,838,063	3,676,401	5,514,464
2020-2024	4,085,000	1,913,212	5,998,212
2025-2028	<u>4,595,000</u>	<u>622,914</u>	<u>5,217,914</u>
Total	\$ <u>13,204,058</u>	<u>13,257,894</u>	<u>26,461,952</u>

Tax Anticipation Notes – These direct obligations of the taxes levied on all taxable property in the School District were issued for school building improvements. The amount outstanding at June 30, 2004 was \$2,795,000 with interest rates range from 4.20% to 4.75%

Future principal and interest payments for tax anticipation notes are as follows:

Fiscal Year Ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$	275,000	126,030	401,030
2006		295,000	114,480	409,480
2007		315,000	101,943	416,943
2008		335,000	88,240	423,240
2009		355,000	73,333	428,333
2010-2012		<u>1,220,000</u>	<u>117,780</u>	<u>1,337,780</u>
Total	\$	<u>2,795,000</u>	<u>621,806</u>	<u>3,416,806</u>

Lease-Purchase Agreement - During the fiscal year, the School District authorized financing for athletic/academic facilities in the amount of \$3,200,000 with a lease-purchase agreement with Oak Hill Banks which will retain title to the projects during the lease term. The School District is required to make semiannual payments of interest and annual payments of principal with final maturity on March 1, 2014. The interest rate is 3.25%. Future minimum payments are as follows:

Fiscal Year Ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$	320,000	104,000	424,000
2006		320,000	93,600	413,600
2007		320,000	83,200	403,200
2008		320,000	72,800	392,800
2009		320,000	62,400	382,400
2010-2014		<u>1,600,000</u>	<u>156,000</u>	<u>1,756,000</u>
Total	\$	<u>3,200,000</u>	<u>572,000</u>	<u>3,772,000</u>

5. RISK MANAGEMENT

The School District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. There was no decline in the level of coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP). The GRP is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This

arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

6. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the year ended June 30, 2004, were approximately \$392,000.

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions to STRS for the year ended June 30, 2004 were approximately \$1,276,000.

7. POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

For the year ended June 30, 2004, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled approximately \$91,000 during fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268.7 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the

difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$12,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2004 were \$223.4 million and the target level was \$335.2 million. At June 30, 2004, SERS' net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, equaled approximately \$137,000 during the 2004 fiscal year.

8. JOINTLY GOVERNED ORGANIZATIONS

Southeastern Ohio Voluntary Education Cooperative

The Southeastern Ohio Voluntary Education Cooperative (SEOVEC), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools supports SEOVEC based upon per pupil charge dependent upon the software package utilized. SEOVEC is governed by a board of directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. To obtain financial information, write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

Gallia-Jackson-Vinton Joint Vocational School

The Gallia-Jackson-Vinton Joint Vocational School (GJVJVS) is a jointly governed organization providing vocational education services to its six participating school districts. The Joint Vocational School is governed by a board of education comprised of nine members appointed by the participating schools. GJVJVS possesses its own budgeting and taxing authority. To obtain financial information, write to the Gallia-Jackson-Vinton Joint Vocational School at PO Box 157, Rio Grande, Ohio 45674.

9. INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

10. REQUIRED SET-ASIDES

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2003	\$	(927,009)	-
Current year set-aside requirement		382,891	382,891
Less qualifying disbursements and offsets		<u>-</u>	<u>(614,416)</u>
Total		<u>(544,118)</u>	<u>(231,525)</u>
Balance carried to FY2005		<u>(544,118)</u>	<u>-</u>
Reserve balance as of June 30, 2004	\$	<u>-</u>	<u>-</u>

Since the School District had qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, this extra amount may be used to reduce the set aside requirement of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirement for future years.

11. CONTINGENCIES

Grants

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

12. SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

JACKSON CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
(Passed through Ohio Department of Education)				
Nutrition Cluster:				
Food Donation	N/A	10.550	\$ 62,025	62,025
School Breakfast Program	05-PU	10.553	64,661	64,661
National School Lunch Program	LL-P4	10.555	<u>259,740</u>	<u>259,740</u>
Total Nutrition Cluster			<u>386,426</u>	<u>386,426</u>
Team Nutrition	TW-AD	10.574	<u>2,000</u>	<u>810</u>
Total U.S. Department of Agriculture			<u>388,426</u>	<u>387,236</u>
<u>U.S. Department of Education:</u>				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education - Grants to States	6B-SF	84.027	310,265	371,358
Special Education - Preschool Grants	PG-S1	84.173	<u>29,086</u>	<u>29,086</u>
Total Special Education Cluster			<u>339,351</u>	<u>400,444</u>
Title I - Grants to Local Educational Agencies	C1-S1	84.010	615,225	565,592
Safe and Drug-Free Schools and Communities - State Grants	DR-S1	84.186	19,333	27,803
Innovative Education Program Strategies	C2-S1	84.298	16,180	17,550
Education Technology State Grants	TJ-S1	84.318	16,653	7,842
Improving Teacher Quality State Grants	TR-S1	84.367	<u>170,133</u>	<u>177,395</u>
Total U.S. Department of Education			<u>1,176,875</u>	<u>1,196,626</u>
<u>U.S. Department of Health and Human Services:</u>				
(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)				
Medical Assistance Program	N/A	93.778	<u>75,279</u>	<u>75,279</u>
Total U.S. Department of Health and Human Services			<u>75,279</u>	<u>75,279</u>
Total Federal Awards			<u>\$ 1,640,580</u>	<u>1,659,141</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Jackson City School District:

We have audited the financial statements of the Jackson City School District (the School District) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 15, 2005, wherein we noted the School District has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2004-3 through 2004-7.

We also noted immaterial instances of noncompliance that we have reported to management in a separate letter dated March 15, 2005.

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

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
March 15, 2005



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Jackson City School District:

Compliance

We have audited the compliance of Jackson City School District (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 each of its major federal programs for the year ended June 30, 2004. The School District's major federal programs are identified in the summary of auditors' 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 Institute's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective 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 Jackson City School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-8 and 2004-9.

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 the 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 believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of management, the audit committee, 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 those specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 15, 2005

JACKSON CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Reportable condition(s) identified that are not considered to be material weaknesses?	yes
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal Control over major programs:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified not considered to be material weaknesses?	yes
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes
Identification of major programs: <i>Nutrition Cluster (CFDA's 10.550, 10.553, and 10.555)</i> <i>Special Education Cluster (CFDA's 84.027 and 84.173)</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

REPORTABLE CONDITIONS

2004-1 Non-payroll Cash Disbursements

As part of our testing of internal control over non-payroll cash disbursements, we selected a sample of sixty (60) cash disbursements from throughout the fiscal year. Our test indicated that seven (7) items had one or more of the following deviations from the School District's stated internal control procedures:

- No requisition authorized by the building principal or appropriate supervisory personnel.
- No requisition authorized by the Assistant Superintendent.
- Invoice/purchase order or requisition was not marked "ok to pay", initialed or signed by the purchaser.
- The voucher pack was not stamped "paid".

Deviations from internal control policies procedures could result in the misappropriation of public funds or overpayments to vendors. We recommend the School District review its internal control procedures over non-payroll cash disbursements and take steps to ensure that internal controls are properly performed prior to the disbursement of cash.

2004-2 Payroll

The School District's internal control procedures over payroll specify that each principal or administrator sign the "long pay sheet" for each pay period for the employees under their supervision. The long pay sheet is intended to provide support and approval for the hours each employee worked during the pay period. As part of our testing of internal control over payroll cash disbursements, we selected a sample of sixty (60) payroll disbursements from throughout the fiscal year. The long pay sheet was not signed by the principal or administrator for eight (8) of the items we selected for testing.

A lack of proper approval of time worked could result in the overpayment of employees. We recommend the School District review its internal control procedures for payroll and require the approval of the long pay sheet prior to the processing of payroll.

NONCOMPLIANCE

2004-3 Financial Statements

Ohio Administrative Code, Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. The School District prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, which material, cannot be determine at this time.

2004-4 Budget Document

Ohio Rev. Code, Section 5705.36, states on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. The School District did not file this certificate with the County Auditor.

2004-5 Estimated Resources

Ohio Rev. Code, Section 5705.39, states that 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. Since the School District did not file a certificate of estimated resources with the County Auditor until June 29, 2004, appropriations exceeded estimated resources in all funds throughout the fiscal year.

2004-6 Appropriations

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. The fiscal year 2004 expenditures were greater than appropriations for the General Fund and Bond Retirement Fund. Also, we examined fund appropriations and expenditures as of November 30, 2003 and noted the State Grants Fund, Permanent Improvement Fund, and Classroom Facilities Fund all had expenditures in excess of appropriations.

2004-7 Negative Fund Balances

Ohio Rev. Code, Section 5705.10, states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At June 30, 2004, the Special Education Fund and Bond Retirement Fund had negative fund balances.

Section III - Federal Award Findings and Questioned Costs

REPORTABLE CONDITIONS

2004-8 Non-payroll Cash Disbursements

The reportable condition described at Finding 2004-1 is applicable to the School District's major federal programs.

2004-9 Payroll

The reportable condition described at Finding 2004-2 is applicable to the School District's major federal programs.

JACKSON CITY SCHOOL DISTRICT

Schedule of Prior Audit Findings

Year Ended June 30, 2004

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major federal program were reported in the prior year.

Jackson City School District
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Ernest Strawser, Treasurer
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CORRECTIVE ACTION PLAN FOR JACKSON CITY SCHOOL DISTRICT

2004-8 Non-Payroll Cash Disbursements

Recommendation: The School District should review its internal control procedures over non-payroll cash disbursements and take steps to ensure that internal controls are properly performed prior to the disbursement of cash.

Auditee Response:

The auditors' finding indicated instances in which an invoice/purchase order/requisition was not marked "ok to pay", initialed, or signed by the purchaser. Generally, routine monthly operational expenditures, such as utilities, do not require an "ok to pay". We believe compensating controls exist. For example utility usage is monitored each month by location.

The auditors' finding indicated 7 items with control deviations. We have addressed certain mitigating factors on some of those items below:

- One item involved a disbursement of \$1,253.95 in tuition reimbursement to an employee. The detail justifying the amount to this particular employee was included in the overall calculations for all employees and is well documented.
- One item without an "ok to pay" was for postage to mail report cards. The report cards are physically taken to the post office and a receipt obtained by the employee delivering the report cards. The report cards are mailed using a not-for-profit form with the quantity and amount determined in advance. The check is prepared and delivered to the post office with the thousands of items to be mailed. The employee did return the actual original receipt from the post office to document the mailing of the report cards. In addition several parents confirmed receipt of their child's report card.
- An item lacked the purchasing officer's approval. The expenditure was for the treasurer's office check signer maintenance agreement in the amount of \$245. The treasurer had authorized the expenditure and did not, himself, process the purchase order or check.
- An item for \$200 for machine shop oxygen/acetylene was not approved by the purchasing agent but was requested by the classroom teacher and approved by the building administrator.
- One item, for \$24.19, did not have an "ok to pay". The expenditure was for classroom supplies. The teacher did turn in an original receipt and the expenditure was pre-authorized. Occasionally the treasurer's staff evaluates materiality with respect to expenditure authorization, given the small amount of this transaction, preauthorization, and the existence of an original receipt the expenditure was processed.

Despite the School District's documentation of the above items continued effort will be put forth to always strengthen the integrity of all expenditures by documenting decisions about compensating controls and materiality as they are made rather than retrospectively (as is the case here).

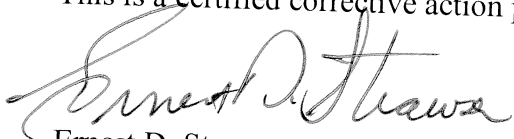
2004-9 Payroll

Recommendation: The School District should review its internal control procedures for payroll and require the approval of the long pay sheet prior to the processing of payroll.

Action Taken:

A few building bi-weekly payroll activity summary sheets were not signed by the building administrator. These sheets are maintained by clerical personnel, contain detailed (per leave or per pay period) back up and then are signed by the building administrator. While compensating controls exist (detail and clerical support) the principal's signature is required and increased compliance will be sought by the School District.

This is a certified corrective action plan that will be implemented by the School District.



Ernest D. Strawser
Treasurer
Jackson City Schools



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140
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800-282-0370
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JACKSON CITY SCHOOL DISTRICT

JACKSON 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
OCTOBER 20, 2005**