



**Auditor of State
Betty Montgomery**

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Patrick Henry Local School District
Henry County
6-900 State Route 18
Hamler, Ohio 43524-9781

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Patrick Henry Local School District, Henry County, (the District), as of and for the year ended June 30 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, each major fund, and the aggregate remaining fund information of the Patrick Henry Local School District, Henry County, Ohio, as of June 30 2004, and the respective changes in financial position, where applicable, and the 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 2004, the 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*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our 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.

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

Betty Montgomery
Auditor of State

February 3, 2005

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$526,821.
- General revenues accounted for \$8,972,141, or 89.7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions accounted for \$1,030,739 or 10.3 percent of total revenues of \$10,002,880.
- The District's major funds included the General Fund, the House Bill 264 Capital Project Fund, and the Ohio School Facilities Commission Capital Project Fund. The General Fund had \$8,095,768 in revenues and \$8,088,154 in expenditures and other financing uses. The General Fund's balance increased \$7,614 from the prior fiscal year. The House Bill 264 Capital Projects Fund had \$12,686 in revenues and \$1,225,251 in expenditures. The House Bill 264 Capital Projects Fund's balance decreased \$1,212,565 from the prior fiscal year. The Ohio School Facilities Commission Capital Projects Fund had \$4,158,561 in revenues and \$3,002,472 in expenditures. The Ohio School Facilities Commission Capital Projects Fund's balance increased \$1,156,089 from the prior fiscal year.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
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(Continued)**

fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund, House Bill 264 Capital Project Fund, and the Ohio School Facilities Commission Capital Project Fund are the three major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property and income tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General fund, House Bill 264 Capital Project fund, and the Ohio School Facilities Commission Capital Project fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1
Net Assets
Governmental Activities

	2004
Assets:	
Current and Other Assets	\$ 12,617,723
Capital Assets, Net	8,254,729
<i>Total Assets</i>	20,872,452
 Liabilities:	
Current and Other Liabilities	4,294,642
Long-Term Liabilities	6,463,007
<i>Total Liabilities</i>	10,757,649
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,616,947
Restricted	7,225,259
Unrestricted	272,597
<i>Total</i>	\$ 10,114,803

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2002. A comparative analysis will be provided in future years when prior year information is available.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Table 2
Change in Net Assets
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 522,073
Operating Grants, Contributions and Interest	508,666
<i>Total Program Revenues</i>	1,030,739
General Revenues:	
Property Taxes	2,670,240
Income Taxes	1,517,723
Grants and Entitlements	4,436,629
Gifts and Donations	77,500
Investment Earnings	92,767
Miscellaneous	177,282
<i>Total General Revenues</i>	8,972,141
<i>Total Revenues</i>	10,002,880
 Expenses:	
Instruction	4,810,634
Support Services:	
Pupils	457,274
Instructional Staff	402,102
Board of Education	25,390
Administration	983,614
Fiscal	333,136
Business	108,930
Operation and Maintenance of Plant	826,127
Pupil Transportation	429,976
Central	174,919
Non-Instructional	405,330
Extracurricular Activities	398,046
Interest and Fiscal Charges	120,581
<i>Total Expenses</i>	9,476,059
<i>Increase in Net Assets</i>	\$ 526,821

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$ 4,810,634	\$ 4,341,320
Support Services:		
Pupils	457,274	448,649
Instructional Staff	402,102	392,115
Board of Education	25,390	25,390
Administration	983,614	983,614
Fiscal	333,136	333,136
Business	108,930	108,930
Operation and Maintenance of Plant	826,127	826,127
Pupil Transportation	429,976	429,976
Central	174,919	174,919
Non-Instructional	405,330	75,019
Extracurricular Activities	398,046	185,544
Interest and Fiscal Charges	120,581	120,581
<i>Total Expenses</i>	\$ 9,476,059	\$ 8,445,320

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 90 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 89.1 percent. The remaining 10.9 percent are derived from tuition and fees, specific grants, and donations.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the House Bill 264 Capital Projects Fund, and the Ohio School Facilities Commission Capital Projects Fund. Total governmental funds had revenues of \$14,093,886 and expenditures of \$13,831,335. The net positive change of \$262,551 in fund balance for the year indicates that the District is able to meet current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$8,941,511 while actual expenditures were \$8,179,814. The \$761,697 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$8,254,729 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$5,105,537 in school improvement general obligation bonds for construction and building improvements. The bonds were issued in the amount of \$5,101,000 for a twenty-eight year period, with final maturity on December 1, 2030. The bonds are being retired through the Bond Retirement Debt Service Fund. The District also has \$174,000 owed on a \$500,000 energy conservation note that will mature on December 1, 2006.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

At June 30, 2004, the District's overall legal debt margin was \$3,912,536, with an un-voted debt margin of \$99,154.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is a consolidation of the small, rural villages of Deshler, Hamler, and Malinta in Northwest Ohio. The population of each is as follows: Deshler (1876), Hamler (623), and Malinta (294). Between them, they have a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 50.5 percent of District revenue sources are from local funds, 45.3 percent from state funds and the remaining 5.2 percent is from federal funds. The total expenditure per pupil was calculated at \$7,967.

Over the past five years, the District has been deficit spending. The last new operating millage was passed in 1995. In May 1997, the District passed a five-year income tax levy and reduced the renewable millage from 7 mills to 2.45 mills. The District passed an additional 5.9 mill operating levy at the November 2004 election. This levy will provide a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, the reduction of personal property for business inventory, as well as declining student enrollment.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Thomas Taylor, Treasurer, Patrick Henry Local School District, 6900 State Route 18, Hamler, Ohio 43524.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 8,494,112
Materials and Supplies Inventory	12,629
Accrued Interest Receivable	1,034
Accounts Receivable	2,876
Intergovernmental Receivable	969,001
Taxes Receivable	2,532,362
Income Taxes Receivable	605,709
Non-Depreciable Capital Assets	3,486,632
Depreciable Capital Assets, net	4,768,097
<i>Total Assets</i>	20,872,452
Liabilities:	
Accounts Payable	15,081
Accrued Wages and Benefits	907,757
Contracts Payable	948,314
Intergovernmental Payable	194,240
Matured Compensated Absences Payable	68,359
Deferred Revenue	2,160,891
Long-Term Liabilities:	
Due Within One Year	288,219
Due in More Than One Year	6,174,788
<i>Total Liabilities</i>	10,757,649
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,616,947
Restricted for Debt Service	54,249
Restricted for Capital Outlay	6,869,112
Restricted for Other Purposes	301,898
Unrestricted	272,597
<i>Total Net Assets</i>	\$ 10,114,803

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses
Governmental Activities:	
Instruction:	
Regular	\$ 3,893,856
Special	744,163
Vocational	67,702
Other	104,913
Support Services:	
Pupils	457,274
Instructional Staff	402,102
Board of Education	25,390
Administration	983,614
Fiscal	333,136
Business	108,930
Operation and Maintenance of Plant	826,127
Pupil Transportation	429,976
Central	174,919
Operation of Non-Instructional Services	405,330
Extracurricular Activities	398,046
Debt Service:	
Interest and Fiscal Charges	120,581
<i>Totals</i>	\$ 9,476,059

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
\$ 57,331	\$ 130,264	\$ (3,706,261)
	281,719	(462,444)
		(67,702)
		(104,913)
	8,625	(448,649)
	9,987	(392,115)
		(25,390)
		(983,614)
		(333,136)
		(108,930)
		(826,127)
		(429,976)
		(174,919)
252,240	78,071	(75,019)
212,502		(185,544)
		(120,581)
<u>\$ 522,073</u>	<u>\$ 508,666</u>	<u>(8,445,320)</u>

General Revenues:

Taxes:		
Property Taxes, Levied for General Purposes		2,165,635
Property Taxes, Levied for Capital Outlay		148,918
Property Taxes, Levied for Debt Service		311,883
Property Taxes, Levied for Other		43,804
Income Taxes		1,517,723
Grants and Entitlements not Restricted to Specific Programs		4,436,629
Gifts and Donations		77,500
Investment Earnings		92,767
Miscellaneous		177,282
<i>Total General Revenues</i>		<u>8,972,141</u>
Change in Net Assets		526,821
<i>Net Assets Beginning of Year</i>		<u>9,587,982</u>
<i>Net Assets End of Year</i>		<u>\$ 10,114,803</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,162,203
Materials and Supplies Inventory	
Accrued Interest Receivable	1,034
Accounts Receivable	650
Interfund Receivable	55,000
Intergovernmental Receivable	
Taxes Receivable	1,988,050
Income Taxes Receivable	605,709
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	23,745
<i>Total Assets</i>	3,836,391
Liabilities	
Accounts Payable	10,568
Accrued Wages and Benefits	865,063
Contracts Payable	
Interfund Payable	
Intergovernmental Payable	119,894
Matured Compensated Absences Payable	68,359
Deferred Revenue	1,826,760
<i>Total Liabilities</i>	2,890,644
Fund Balances	
Reserved:	
Reserved for Encumbrances	156,774
Reserved for Property Taxes	266,921
Reserved for Budget Stabilization	23,745
Unreserved, Undesignated, Reported in:	
General Fund	498,307
Special Revenue Funds	
Debt Service Funds	
Capital Projects Funds	
<i>Total Fund Balances</i>	945,747
<i>Total Liabilities and Fund Balances</i>	\$ 3,836,391

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ 7,314,037
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,254,729
Taxes and Intergovernmental Receivables that do not provide current financial resources are not reported as revenues in governmental fund.		1,079,067
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(70,023)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds and Notes Payable	(5,651,537)	
Capital Leases Payable	(69,219)	
Compensated Absences Payable	<u>(742,251)</u>	
		<u>(6,463,007)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 10,114,803</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	<u>General Fund</u>
Revenues	
Property and Other Local Taxes	\$ 2,156,134
Income Tax	1,414,376
Intergovernmental	4,364,716
Interest	20,520
Tuition and Fees	57,136
Extracurricular Activities	
Gifts and Donations	77,000
Customer Sales and Services	
Miscellaneous	5,886
<i>Total Revenues</i>	<u>8,095,768</u>
 Expenditures	
Current:	
Instruction:	
Regular	3,865,153
Special	488,477
Vocational	64,420
Other	101,614
Support Services:	
Pupils	332,331
Instructional Staff	328,022
Board of Education	25,390
Administration	818,544
Fiscal	305,430
Business	98,345
Operation and Maintenance of Plant	714,278
Pupil Transportation	389,511
Central	135,013
Operation of Non-Instructional Services	
Extracurricular Activities	217,595

House Bill 264 Capital Project	Ohio School Facilities Commission	All Other Governmental Funds	Total Governmental Funds
		\$ 503,259	\$ 2,659,393
			1,414,376
	\$ 4,099,000	686,779	9,150,495
\$ 12,686	59,561		92,767
		195	57,331
		212,502	212,502
		500	77,500
		252,240	252,240
		171,396	177,282
<u>12,686</u>	<u>4,158,561</u>	<u>1,826,871</u>	<u>14,093,886</u>

	66,142	3,931,295
	233,288	721,765
		64,420
	3,299	104,913
	5,666	337,997
	38,073	366,095
		25,390
1,277	131,713	951,534
	9,707	315,137
		98,345
	17,940	732,218
		389,511
	3	135,016
	389,116	389,116
	228,994	446,589

(Continued)

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004
(Continued)**

	General Fund
Capital Outlay	
Debt Service:	
Principal	131,928
Interest	8,555
<i>Total Expenditures</i>	8,024,606
<i>Excess of Revenues Over (Under) Expenditures</i>	71,162
 Other Financing Sources and Uses	
Transfers In	
Transfers Out	(63,548)
<i>Total Other Financing Sources and Uses</i>	(63,548)
<i>Net Change in Fund Balances</i>	7,614
Fund Balance at Beginning of Year	938,133
<i>Fund Balance at End of Year</i>	\$ 945,747

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

House Bill 264 Capital Project	Ohio School Facilities Commission	All Other Governmental Funds	Total Governmental Funds
1,219,841	3,002,472	124,218	4,346,531
		120,000	251,928
4,133		210,847	223,535
<u>1,225,251</u>	<u>3,002,472</u>	<u>1,579,006</u>	<u>13,831,335</u>
<u>(1,212,565)</u>	<u>1,156,089</u>	<u>247,865</u>	<u>262,551</u>
		63,548	63,548
			(63,548)
		<u>63,548</u>	
<u>(1,212,565)</u>	<u>1,156,089</u>	<u>311,413</u>	<u>262,551</u>
<u>1,293,536</u>	<u>4,171,039</u>	<u>648,778</u>	<u>7,051,486</u>
<u>\$ 80,971</u>	<u>\$ 5,327,128</u>	<u>\$ 960,191</u>	<u>\$ 7,314,037</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 262,551

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on 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 capital outlay exceeds depreciation in the current year.

Capital Outlay - Capital Assets	4,480,136	
Depreciation	<u>(376,613)</u>	
		4,103,523

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(126)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(4,205,200)	
Income Taxes	103,347	
Delinquent Property Taxes	<u>10,847</u>	
		(4,091,006)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		251,928
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Increases in capital appreciation bonds are recorded as interest and fiscal charges in the statement of net assets but are not reported in the governmental funds.		(28,974)
--	--	----------

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(11,647)	
Compensated Absences Payable	<u>40,572</u>	
		28,925

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 526,821</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<i>Total Revenues</i>	\$ 8,051,634	\$ 8,051,634	\$ 8,024,117	\$ (27,517)
Expenditures:				
Personal Services - Salaries	4,589,429	4,551,508	4,452,431	99,077
Employee Retirement and Health Insurance	1,604,449	1,598,044	1,597,387	657
Purchased Services	1,159,889	967,713	691,607	276,106
Supplies and Materials	203,988	337,312	278,284	59,028
Capital Outlay	386,730	404,519	234,326	170,193
Capital Outlay - Replacement	61,805	62,415	18,050	44,365
Miscellaneous	1,226,173	800,000	789,181	10,819
Other Uses of Funds	285,941	220,000	118,548	101,452
<i>Total Expenditures</i>	9,518,404	8,941,511	8,179,814	761,697
<i>Excess of Expenditures Over Revenues</i>	(1,466,770)	(889,877)	(155,697)	734,180
Fund Balances at Beginning of Year	1,090,645	1,090,645	1,090,645	
Prior Year Encumbrances Appropriated	83,660	83,660	83,660	
<i>Fund Balance at End of Year</i>	\$ (292,465)	\$ 284,428	\$ 1,018,608	\$ 734,180

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 10,065	\$ 27,646
<i>Total Assets</i>	<u>10,065</u>	<u>27,646</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	-	27,646
<i>Total Liabilities</i>	<u>-</u>	<u>27,646</u>
Net Assets		
Held in Trust for Scholarships	10,065	-
<i>Total Net Assets</i>	<u>\$ 10,065</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$ 444
<i>Total Additions</i>	<u>444</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>444</u>
<i>Total Deductions</i>	<u>444</u>
<i>Change in Net Assets</i>	-
Net Assets Beginning of Year	<u>10,065</u>
<i>Net Assets End of Year</i>	<u><u>\$ 10,065</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Patrick Henry Local School District (the 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. Patrick Henry Local School District is a local school district as defined by § 3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's four instructional/support facilities staffed by 55 non-certified and 82 certified full-time teaching personnel who provide services to 1,117 students and other community members.

The Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with six organizations, which are defined as jointly governed organizations, insurance pools, and a related organization. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Edwin Wood Memorial Library. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 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. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, House Bill 264 Capital Project Fund, and the Ohio School Facilities Commission Capital Fund are the District's major governmental funds:

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

House Bill 264 Capital Project Fund - The House Bill 264 Capital Project Fund is used to account for the revenues and expenditures related to the project.

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission Capital Project Fund is used to account for the revenues and expenditures related to the construction of a new school building.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of agency funds and private purpose trust funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of 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.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(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 collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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, income taxes, grants, investment earnings, tuition, and student 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, 2004, but which were levied to finance fiscal year 2005 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 been reported as deferred revenue.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the function level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the Treasurer.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2004, investments included federal agency securities, mutual funds, and STAR Ohio.

Federal agency securities are reported at fair value, which is based on quoted market prices. Mutual funds are reported at fair value, which is based on current share price. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. During fiscal year 2004, interest revenue was credited in the amount of \$20,520 to the General Fund, \$12,686 to the House Bill 264 Capital Project Fund, and \$59,561 to the Ohio School Facilities Commission Capital Project Fund.

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

G. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor’s grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for budget stabilization.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

J. 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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

M. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances." The District had no business type activities.

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

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

P. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance" the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES, RESTATEMENT OF FUND BALANCE AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the 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. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General Fund</u>	<u>HB 264 Projects Fund</u>	<u>OSFC Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$ 932,655	\$ 1,293,536	\$ 4,171,039	\$ 651,615	\$ 7,048,845
GASB Statement 34 Adjustment					
Change in Fund Structure:					
Enterprise				(19,287)	(19,287)
Interpretation 6 Adjustments:					
Compensated Absences Payable				16,450	21,928
Adjusted Fund Balance	5,478			16,450	21,928
<i>GASB 34 Adjustments:</i>	<u>\$ 938,133</u>	<u>\$ 1,293,536</u>	<u>\$ 4,171,039</u>	<u>\$ 648,778</u>	7,051,486
Deferred Revenue					5,170,073
Capital Assets					4,151,332
Long-Term Liabilities					<u>(6,784,909)</u>
<i>Governmental Activities Net Assets at June 30, 2003</i>					<u>\$ 9,587,982</u>

C. Compliance

The District did not certify all disbursements as required by Ohio Revised Code § 5705.41(D).

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 Balance – Budget (Non-GAAP Basis) and Actual 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 fund financial statements are the following:

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).

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 Major Governmental Fund	
GAAP Basis	\$ 7,614
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	620,032
Accrued FY 2004, Not Yet Received in Cash	(768,855)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(933,203)
Accrued FY 2004, Not Yet Paid in Cash	1,064,056
Advances Net	22,000
Encumbrances Outstanding at Year End (Budget Basis)	(167,341)
Budget Basis	\$ (155,697)

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal 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 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 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
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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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$2,495,612 and the bank balance was \$2,627,279. Of the bank balance:

1. \$319,406 was covered by Federal Depository Insurance; and
2. \$2,307,873 was collateralized by securities specifically pledged by the financial institution in the name of the District.

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which

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the securities are held by the counterparty's trust department or agent in the 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 District's name.

Investments as of June 30, 2004 were as follows:

	<u>Category 3</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 3,494,150	\$ 3,494,150
Mutual Funds	Not Categorized	32,848
STAR Ohio	Not Categorized	2,509,213
<i>Total</i>		<u>\$ 6,036,211</u>

The State Treasurer's Investment Pool (STAR Ohio) and Mutual Funds are not categorized investments because they are not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

Reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	
	<u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 8,531,823	\$ -
Investments:		
US Government Securities	(3,494,150)	3,494,150
Mutual Funds	(32,848)	32,848
STAR Ohio	(2,509,213)	2,509,213
<i>GASB Statement No. 3</i>	<u>\$ 2,495,612</u>	<u>\$ 6,036,211</u>

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**Notes to the Basic Financial Statements
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6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received 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 District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts 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.

The District receives property taxes from Henry, Putnam, and Wood Counties. The County Auditors periodically advances to the 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 amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$266,921 in the General Fund, \$39,102 in the Debt Service Fund, and \$24,477 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$185,455 in the General Fund, \$28,290 in the Debt Service Fund, and \$17,417 in the Capital Projects Fund.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 83,992,430	84%	\$ 77,698,030	79%
Industrial/Commercial			7,255,950	7%
Public Utility	9,399,270	9%	8,146,360	8%
Tangible Personal	7,332,505	7%	6,053,499	6%
Total Assessed Value	\$ 100,724,205	100%	\$ 99,153,839	100%
 Tax rate per \$1,000 of assessed valuation	 \$ 38.41		 \$ 38.41	

7. INCOME TAX

The District levies a voted tax of one and three-fourths percent for general operations on the income of residents and of estates. The one-percent tax was effective January 1, 1991, and is for a continuing period. The three-fourths percent tax was effective January 1, 2003 and expires December 31, 2007. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amount for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, income taxes, accounts (rent and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Ohio School Facilities Commission	\$ 917,861
Food Service	10,009
Title I	15,802
Title VI	3,239
Drug Free Schools	6,552
Title II-A	14,264
Miscellaneous Federal	1,274
<i>Total Intergovernmental Receivables</i>	\$ 969,001

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Nondepreciable Capital Assets:				
Land	\$ 592,870			\$ 592,870
Construction In Progress		\$ 2,893,762		2,893,762
<i>Total Nondepreciable Capital Assets</i>	592,870	2,893,762	-	3,486,632

(Continued)

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Depreciable Capital Assets:				
Land Improvements	580,088			580,088
Buildings and Building Improvements	4,321,311	1,340,147		5,661,458
Furniture, Fixtures, and Equipment	2,279,564	246,227	\$ 1,259	2,524,532
Vehicles	925,804			925,804
Infrastructure				-
Books	740,218			740,218
<i>Total Depreciable Capital Assets</i>	<u>8,846,985</u>	<u>1,586,374</u>	<u>1,259</u>	<u>10,432,100</u>
Less: Accumulated Depreciation				
Land Improvements	349,285	10,431		359,716
Buildings and Building Improvements	2,364,716	129,972		2,494,688
Furniture, Fixtures, and Equipment	1,502,938	144,968	1,133	1,646,773
Vehicles	547,589	51,464		599,053
Books	523,995	39,778		563,773
<i>Total Accumulated Depreciation</i>	<u>5,288,523</u>	<u>376,613</u>	<u>1,133</u>	<u>5,664,003</u>
<i>Capital Assets, Net</i>	<u>\$ 4,151,332</u>	<u>\$ 4,103,523</u>	<u>\$ 126</u>	<u>\$ 8,254,729</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 73,465
Special	1,364
Vocational	1,492
Support Services:	
Pupil	30,536
Instructional Staff	63,015
Administration	5,737
Fiscal	1,441
Operation and Maintenance of Plant	86,518
Pupil Transportation	49,022
Central	7,053
Non-Instructional Services	3,179
Extracurricular	6,692
Capital Outlay	47,099
<i>Total Depreciation Expense</i>	<u>\$ 376,613</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The District restated Capital Assets at the beginning of the year as follows:

Balance at June 30, 2003	\$ 9,435,368
Restatement	4,487
Balance, Restated	\$ 9,439,855

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted with Indiana Insurance and Nationwide Insurance for the following insurance coverage's.

Building and Contents - replacement cost (\$1,000 deductible)	\$ 22,316,952
Inland Marine Coverage (included in Building and Contents)	-
Employee Dishonesty Bond - blanket (\$1,000 deductible)	50,000
Vehicle Liability (combined single limit)	2,000,000
Medical Payments per Person	1,000/5,000
Uninsured/Underinsured Motorists	50,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverages from last year.

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including health, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating

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For the Fiscal Year Ended June 30, 2004
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school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$136,994, \$110,547, and \$65,229, respectively; 62 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$87,252.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2004
(Continued)**

B. State Teachers Retirement System

The 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 issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 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 their account balances from the existing D 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.

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(Continued)**

Plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$614,930, \$554,756, and \$374,273, respectively; 85 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$85,304.

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, 2004, five members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Stabilization Fund. Effective July 1, 2004, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. 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 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. 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 2004, the minimum pay has been established as \$24,500. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .35072, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of

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vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for classified and 230 for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days for classified employees and for one-fourth of accrued, but unused sick leave credit to a maximum of 57.5 days for certified employees. Also, classified employees can accumulate 40 personal days and receive payment for twenty percent of accrued, but unused personal leave to a maximum of 10 days. Personal day accumulation is not applicable to classified employees hired after June 30, 2002.

B. Other Employee Benefits

The District provides life, health, optical, and dental insurance to most employees through the Northern Buckeye Education Council Employee Insurance Benefits Program.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government –Wide Financial Statements:

	Balance at 06/30/03	Increase	Decrease	Balance at 06/30/04	Amount Due In One Year
Energy Conservation Notes	\$ 228,000		\$ 54,000	\$ 174,000	\$ 56,000
Note Payable	403,000		31,000	372,000	31,000
OSFC Bond Issue	5,142,563	28,974	66,000	5,105,537	120,000
Capital Leases Payable	170,147		100,928	69,219	69,219
Compensated Absences	782,823	\$ 742,251	782,823	742,251	12,000
<i>Total Long-Term Obligations</i>	<u>\$6,726,533</u>	<u>\$ 771,225</u>	<u>\$ 1,034,751</u>	<u>\$ 6,463,007</u>	<u>\$ 288,219</u>

Compensated absences and intergovernmental payables, representing the District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund.

On February 10, 1997, the District issued \$500,000 4.75 percent in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of the Ohio Revised Code §§ 133.06(G) and 3313.372. The notes were issued for a

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ten fiscal year period with final maturity during fiscal year 2007. The debt will be retired from savings, which are anticipated from the energy conservation improvements.

The note payable is part of a Fiber Optic Network Project. The original liability for the District was \$465,000. The District paid \$31,000 in fiscal year 2004. The remaining liability is payable in annual installments of \$31,000 with final maturity in fiscal year 2016. The note is non-interest bearing.

The OSFC Bond Issue was entered into in 2002 for the amount of \$5,101,000. The bond was issued to retire notes issued for the construction of a new school building and renovation of other buildings. The bond issue includes serial, term and capital appreciation bonds, in the amount of \$1,816,000, \$3,075,000, and \$210,000, respectively. The bonds carry interest rates ranging from 2 percent to 4.75 percent and with a final maturity in fiscal year 2030.

The current interest term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

Year	Amount
2016	\$ 175,000

The remaining principal amount of such current interest bonds (\$185,000) will be paid at the stated maturity on December 1, 2017.

The current interest term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

Year	Amount
2021	\$ 220,000

The remaining principal amount of such current interest bonds (\$230,000) will be paid at the stated maturity on December 1, 2022.

The current interest term bonds maturing on December 1, 2030 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be

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redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

Year	Amount
2023	\$ 240,000
2024	250,000
2025	265,000
2026	275,000
2027	290,000
2028	300,000
2029	315,000

The remaining principal amount of such current interest bonds (\$330,000) will be paid at the stated maturity on December 1, 2017.

The current interest bonds maturing after December 1, 2012 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 31, 2012, at 100 percent of the principal amount redeemed plus accrued interest to the date fixed for redemption.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 through 2013. The maturity amount of the bonds is \$660,000. For fiscal year 2004, \$28,974 was accreted on the capital appreciation bonds for a total outstanding bond value of \$5,105,537 at fiscal year end.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004 are as follows:

Year Ending June 30,	Serial	Term	Capital	Notes	Interest	Total
2005	\$ 120,000			\$ 87,000	\$ 210,508	\$ 417,508
2006	125,000			89,000	205,350	419,350
2007	130,000			91,000	199,803	420,803
2008	135,000			31,000	195,128	361,128
2009	145,000			31,000	191,270	367,270
2010-2014	160,000		\$ 210,000	155,000	1,373,188	1,898,188
2015-2019	525,000	\$ 360,000		62,000	834,055	1,781,055
2020-2024	410,000	690,000			614,912	1,714,912
2025-2029		1,380,000			323,000	1,703,000
2030-2031		645,000			30,994	675,994
Total	<u>\$ 1,750,000</u>	<u>\$ 3,075,000</u>	<u>\$ 210,000</u>	<u>\$ 546,000</u>	<u>\$ 4,178,208</u>	<u>\$ 9,759,208</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
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The School District's voted legal debt margin was \$3,912,536 with an unvoted debt margin of \$99,154 at June 30, 2004.

15. CAPITALIZED LEASES – LESSEE DISCLOSURE

The District has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Instructional Services" in the funds, which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements. The equipment acquired by lease has been capitalized in capital assets, in the amount of \$266,743. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the government-wide financial statements. Principal payments were made in fiscal year 2004, in the amount of \$100,928.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	GLTDAG
2005	\$ 78,756
Less: Amount Representing Interest	(9,537)
Present Value of Net Minimum Lease Payments	\$ 69,219

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds is required to be set aside at fiscal year end.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2003	\$ (533,992)		\$ 23,745
Current Year Set-aside Requirement	160,123	\$ 160,123	
Current Year Offsets		(140,678)	
Qualifying Disbursements	<u>(227,121)</u>	<u>(19,445)</u>	
Amount Carried Forward to Fiscal Year 2005	<u>\$ (600,990)</u>	<u>\$ -</u>	<u>\$ 23,745</u>
Set-Aside Cash Balance as of June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,745</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements.

17. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modem technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The Northern Buckeye Education Council governs NWOCA and its participating members. In fiscal year 2004, Patrick Henry Local School District contributed \$94,314 to NWOCA. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center (Center is a distinct political subdivision of the State of Ohio, which provides vocational education for students. The Center is operated under the Direction of a Board consisting of two representatives from the Fulton County Educational Service Center, one representative from the Defiance, Henry, and Williams Counties' Educational Service Centers, and one representative from the participating school districts. The Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

18. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (the Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The NBEC and its participating members govern the Program. In fiscal year 2004, Patrick Henry Local School District contributed \$795,389 to the Northern Buckeye Education Council for insurance premiums. Financial information can be obtained from Northern Buckeye Education Council. Cindy Siler, who serves as Treasurer at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participating members of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participating members pay an enrollment fee, \$920 in fiscal year 2004, to the Plan to cover the costs of administering the program.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

19. RELATED ORGANIZATION

Edwin Wood Memorial Library - The Edwin Wood Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Patrick Henry Local School District Board of Education.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Edwin Wood Memorial Library, Rhonda Hogrefe, Clerk/Treasurer, at 208 North East Street, Deshler, Ohio 43516.

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

21. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

B. Litigation

There are currently no matters in litigation with the District as defendant.

22. CONTRACTUAL COMMITMENTS

As of June 30, 2004, the District had the following outstanding contractual commitments:

Company	Amount Remaining
Mel Lanzer	\$ 3,132,517
Central Fire	62,302
Ohio Plumbing	238,725
Babcock Plumbing/Heat	835,806
Woolace Electric	487,450
Vaughn	132,318
J & K Environmental	7,650
Cardinal Bus	51,500
<i>Totals</i>	<u>\$ 4,948,268</u>

23. RESTRICTED ASSETS

The following amount, which is reflected on the statement of net assets, is restricted for budget stabilization.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 23,745</u>

24. SUBSEQUENT EVENTS

On November 2, 2004, the voters of the District approved an additional 5.9 mill operating levy on all real, public utility, and tangible personal property located in the District for the purpose of continuing operations. The tax is for a three year period and is effective for calendar year 2005 taxes.

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**Auditor of State
Betty Montgomery**

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

Patrick Henry Local School District
Henry County
6900 State Route 18
Hamler, Ohio 43524-9781

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Patrick Henry Local School District, Henry County, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 3, 2005, in which we disclosed the District implemented a new financial reporting model. 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 District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated February 3, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

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. However, we do not believe the reportable condition described above is a material weakness. 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 District's management in a separate letter dated February 3, 2005.

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



Betty Montgomery
Auditor of State

February 3, 2005

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Findings
June 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**FINDING NUMBER 2004-001
(Continued)**

- 3. Super Blanket Certificate** – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirteen percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. In addition, the District had outstanding purchase commitments of \$948,313 that were not certified at year end. As a result, the outstanding purchase commitments will be charged against fiscal year 2005 appropriations.

Certification is not only required by Ohio law but is a key control in the disbursement process to help assure purchase commitments receive prior approval, and reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board. To improve controls over disbursements, we recommend all District disbursements receive prior certification of the Treasurer. In addition, the Board should periodically review the expenditures made to ensure they are within the appropriations adopted by the Board, certified by the Treasurer, and recorded against appropriations.

FINDING NUMBER 2004-002

Reportable Condition - Budgeted Receipts and Disbursements

The Board of Education approves estimated receipts and appropriations at the level they intend to monitor the District's financial activity, and in amounts they deem able and sufficient to operate the District.

Estimated receipts and appropriations posted to the system by the District Treasurer did not agree to what was approved by the Board. This does not provide the Board with the information they intended for monitoring the District's financial activity and position.

To provide the Board with accurate information to monitor the District's financial position, budgeted receipts, and appropriations posted to the accounting system should agree to what was approved. In addition, the Board should periodically compare the posted amounts to the approved amounts to ensure they agree.



**Auditor of State
Betty Montgomery**

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**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 24, 2005**