

SOUTH CENTRAL LOCAL SCHOOL DISTRICT

AUDIT REPORT

For the Year Ended June 30, 2004

Charles E. Harris & Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Education
South Central Local School District
3305 Greenwich Angling Road
Greenwich, Ohio 44837

We have reviewed the *Report of Independent Accountants* of the South Central Local School District, Huron County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 4, 2005

This Page is Intentionally Left Blank.

SOUTH CENTRAL LOCAL SCHOOL DISTRICT
AUDIT REPORT
For the Year Ended June 30, 2004

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1 - 2
Management’s Discussion and Analysis	3 - 10
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund	18
Statement of Fiduciary Net Assets	19
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust	20
Notes to the Basic Financial Statements	21 - 41
Schedule of Federal Awards Expenditures	42 - 43
Notes to the Schedule of Federal Awards Expenditures	44
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45 - 46
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	47 - 48
Schedule of Findings and Questioned Costs	49 - 50
Status of Prior Year’s Citations and Recommendations	51

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Education
South Central Local School District
Greenwich, Ohio**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Local School District, Huron County Ohio, (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 an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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 South Central Local School District, Huron County as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The management's discussion and analysis on pages 3 to 10 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 on 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Central Local School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
June 20, 2005

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of South Central Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$282,874, which represents a 3.1 percent decrease from 2003. The District has no business-type activities.
- General revenues accounted for \$6.6 million in revenue or 85.3 percent of all revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1.1 million or 14.7 percent of total revenues of \$7.8 million.
- The District had \$8.1 million in expenses related to governmental activities; \$1.1 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily state foundation and taxes) of \$6.6 million were not adequate to provide for these programs and, therefore net assets decreased by \$0.3 million.
- The general fund, the only major fund, had \$6.7 million in revenues and \$6.7 million in expenditures. The general fund's balance decreased \$5,120 to \$2.9 million.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements also look at the District's most significant fund with all non-major funds presented in total in one column. The District had one major governmental fund, the general fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially in 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the user that, for the District as a whole, the *financial position* of the District has improved or diminished. Changes to our net assets are a direct result of property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, the District's activities are classified as Governmental Activities. All of District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund begins on page 14. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school's most significant fund, the General Fund.

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in private purpose trust funds if the principal has to stay intact or in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 19.

These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspectives of the District as a whole.

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 1 provides a summary of the District's net assets for 2004. Comparative figures are not presented since this a first year GASB 34 presentation:

Table 1
Governmental Activities – Net Assets

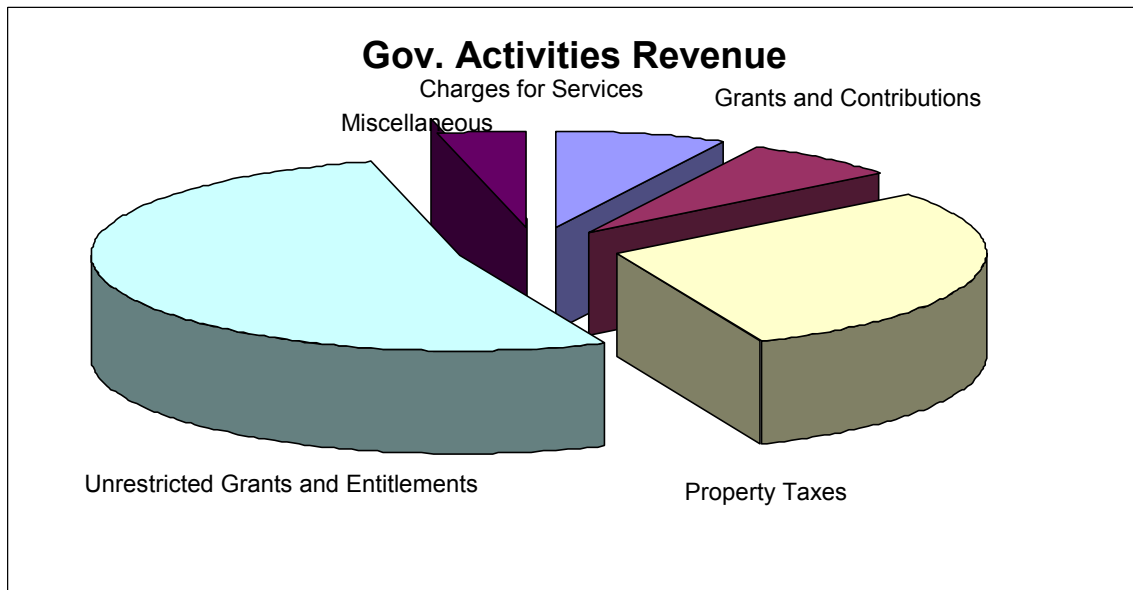
Assets	
Current and Other Assets	\$ 5,142,093
Capital Assets	<u>7,103,188</u>
<i>Total Assets</i>	<u>12,245,281</u>
Liabilities	
Current Liabilities	1,549,823
Long-term Liabilities	<u>1,949,473</u>
<i>Total Liabilities</i>	<u>3,499,296</u>
Net Assets	
Invested in Capital Assets, Net o	5,411,447
Restricted	410,807
Unrestricted	<u>2,923,731</u>
<i>Total Net Assets</i>	<u><u>\$ 8,745,985</u></u>

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 provides a summary of the District's revenues for 2004. Comparative figures are not shown since this is a first year GASB 34 presentation:

Table 2
 Governmental Activities – Revenues

Unrestricted Grants and Entitlements	\$ 4,079,402	52.47%
Property and Income Taxes	2,508,480	32.26%
Charges for Services	\$589,804	7.59%
Operating and Capital Grants and Contributions	556,604	7.16%
Miscellaneous	<u>41,108</u>	<u>0.52%</u>
	<u>\$ 7,775,398</u>	<u>100.00%</u>



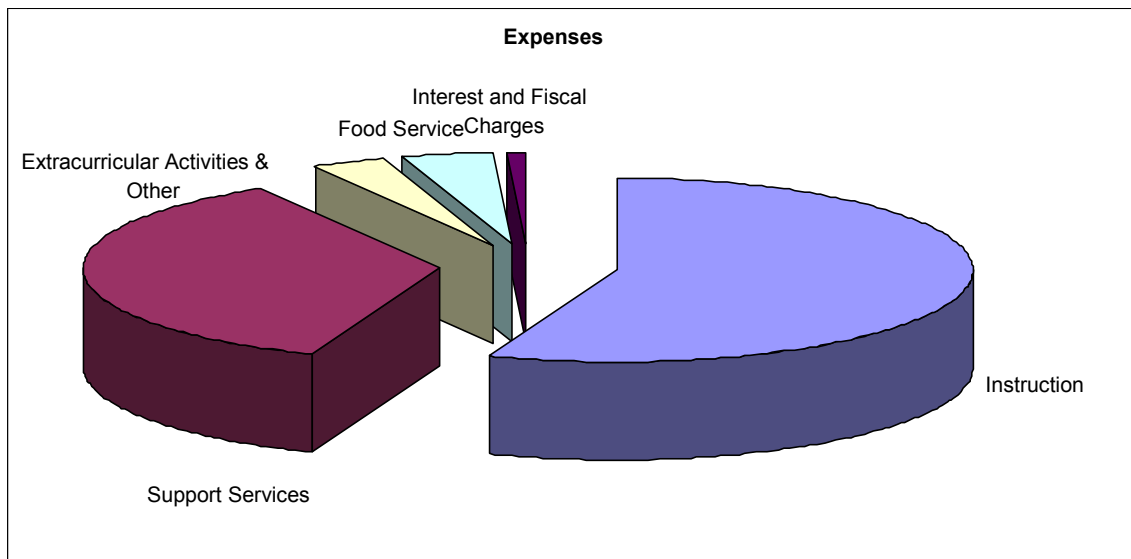
Program revenues were \$1.1 million. However, the vast majority of revenues supporting governmental activities were general revenues, which accounted for \$6.6 million. General revenues, consisting of primarily of property and income taxes and unrestricted grants and entitlements comprised 85.3 percent of revenue supporting governmental activities.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 3
 Governmental Activities-Total and Net Cost of Service
 (in millions)

	2004	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 4.51	\$ 3.87
Support Services		
Pupils and Instructional Staff	0.28	0.27
Board of Education, Administration, and Fiscal	1.31	1.29
Operation and Mainance of Plant	0.88	0.86
Pupil Transportation	0.41	0.41
Central	0.01	0.01
Extracurricular Activities	0.26	0.12
Interest and Fiscal Charges	0.07	0.07
Food Service	0.33	0.01
Total Expenses	\$ 8.06	\$ 6.91



South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a tax levy does not increase as a result of inflation. For an example, a homeowner with a home value of \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$2.3 million in 2004 and income taxes generated \$255 thousand. General revenues from grants and entitlements, such as the school foundation program, generated \$4.1 million. With the combination of taxes and intergovernmental revenue funding over 85.8 percent of all expenses, the District monitors both of these revenue sources very closely for fluctuations.

The District's Funds

Information about the District's major fund starts on page 14. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7.82 million and expenditures of \$7.91 million.

General Fund

The District's general fund balance decreased by \$5,120. The decrease in fund balance can be attributed to expenditures such as payroll and benefits increasing more than property tax and intergovernmental revenues.

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.

For the General Fund, final budget basis revenue was \$6.7 million. Actual revenue was \$6.7 million, on target with the final budget.

The final amount appropriated was \$9.0 million. Expenditures, however, were only \$6.9 million or \$2.1 million less than anticipated. This is due to the conservative nature of the Board of Education.

South Central Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$7.1 million invested in land, infrastructure, buildings, equipment and vehicles all used for governmental activities. Additional information on the District's capital assets can be found in Note 12 of the basic financial statements.

Debt

At June 30, 2004, the District had \$1,399,988 in Classroom Facilities Improvement Bonds outstanding. Of this total, \$95,000 is due within one year. Additional information on the District's debt can be found in Note 11 of the basic financial statements.

Current Issues Affecting Financial Condition

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the District. Management must plan expenses accordingly, staying within the District's five-year plan. 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 decision 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 on its financial operations.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact Shirley Oney, Treasurer at South Central Local School District, 3305 Greenwich Angling Road, Greenwich, Ohio 44837.

(This page intentionally left blank)

South Central Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 2,722,991
Restricted Cash	509,326
Restricted Cash with Fiscal Agents	29
Receivables:	
Taxes	1,482,341
Intergovernmental	401,827
Accounts	2,655
Inventory	22,924
Nondepreciable Capital Assets	291,753
Depreciable Capital Assets (Net)	6,811,435
<i>Total Assets</i>	12,245,281
Liabilities	
Accounts Payable	41,060
Accrued Wages and Benefits	489,007
Accrued Interest	5,368
Intergovernmental Payable	169,564
Deferred Revenue	1,010,205
Long Term Liabilities:	
Due Within One Year	151,323
Due In More Than One Year	1,632,769
<i>Total Liabilities</i>	3,499,296
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,411,447
Restricted for:	
Debt Service	243,075
Other Purposes	177,369
Unrestricted	2,914,094
<i>Total Net Assets</i>	\$ 8,745,985

See accompanying notes to the basic financial statements.

**South Central Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Current:					
Instruction:					
Regular	\$ 3,826,542	\$ 272,068	\$ 265,938	\$ -	\$ (3,288,536)
Special	473,059	-	93,062	-	(379,997)
Vocational	110,808	-	-	-	(110,808)
Other	94,684	-	-	-	(94,684)
Support services:					
Pupils	104,653	-	1,729	-	(102,924)
Instructional staff	173,762	-	3,496	-	(170,266)
Board of education	103,160	-	-	-	(103,160)
Administration	881,628	-	25,419	-	(856,209)
Fiscal	325,877	-	-	-	(325,877)
Operation and maintenance of plant	883,379	-	-	19,800	(863,579)
Pupil transportation	412,384	-	-	-	(412,384)
Central	6,874	-	-	-	(6,874)
Extracurricular activities	257,810	132,350	-	-	(125,460)
Food service	329,898	185,386	147,160	-	2,648
Interest and fiscal charges	73,754	-	-	-	(73,754)
<i>Total Governmental Activities</i>	<u>\$ 8,058,272</u>	<u>\$ 589,804</u>	<u>\$ 536,804</u>	<u>\$ 19,800</u>	<u>(6,911,864)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	2,074,401
Debt Service	178,307
Income taxes	255,772
Grants and Entitlements not Restricted to Specific Programs	4,079,402
Investment Earnings	36,810
Miscellaneous	3,460
Gain on Sale of Capital Assets	838
Total General Revenues	<u>6,628,990</u>
Change in Net Assets	<u>(282,874)</u>
Net Assets Beginning of Year (Restated, See Note 17)	<u>9,028,859</u>
Net Assets End of Year	<u>\$ 8,745,985</u>

See accompanying notes to the basic financial statements.

South Central Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,092,319	\$ 630,672	\$ 2,722,991
Restricted Cash	509,326	-	509,326
Restricted Cash with Fiscal Agents	-	29	29
Receivables:			
Taxes	1,291,286	191,055	1,482,341
Intergovernmental	255,772	146,055	401,827
Accounts	2,655	-	2,655
Interfund	254,870	-	254,870
Inventories	10,751	12,173	22,924
<i>Total Assets</i>	<u>4,416,979</u>	<u>979,984</u>	<u>5,396,963</u>
Liabilities			
Accounts Payable	34,912	6,148	41,060
Accrued Wages and Benefits	438,941	50,066	489,007
Compensated Absences Payable	19,734	-	19,734
Interfund Payable	-	254,870	254,870
Intergovernmental Payable	89,605	13,011	102,616
Interest Payable	-	29	29
Deferred Revenue	925,524	138,567	1,064,091
<i>Total Liabilities</i>	<u>1,508,716</u>	<u>462,691</u>	<u>1,971,407</u>
Fund Balances			
Reserved for:			
Encumbrances	34,912	119,380	154,292
Textbooks	187,330	-	187,330
Capital Maintenance	171,525	-	171,525
Inventory	10,751	12,173	22,924
Property Taxes	365,762	53,488	419,250
Debt Service	-	197,263	197,263
Budget Stabilization	168,961	-	168,961
Unreserved:			
Undesignated, Reported in:			
General Fund	1,969,022	-	1,969,022
Special Revenue Funds	-	115,730	115,730
Capital Projects Funds	-	19,259	19,259
<i>Total Fund Balances</i>	<u>2,908,263</u>	<u>517,293</u>	<u>3,425,556</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,416,979</u>	<u>\$ 979,984</u>	<u>\$ 5,396,963</u>

See accompany notes to the basic financial statements

**South Central Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004**

Total Governmental Fund Balances		\$ 3,425,556
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		7,103,188
Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds		53,886
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:</p>		
General Obligation	\$ 1,399,988	
Accrued Interest	5,339	
Compensated Absences	364,370	
Pension Obligation	66,948	
		(1,836,645)
Total net assets-governmental activities		\$ 8,745,985

South Central Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,040,013	\$ 210,000	\$ 2,250,013
Income Taxes	255,772	-	255,772
Intergovernmental	4,114,233	559,969	4,674,202
Interest	33,165	3,645	36,810
Tuition and Fees	254,697	-	254,697
Extracurricular Activities	-	132,506	132,506
Food Services	-	185,386	185,386
Miscellaneous	14,368	15,913	30,281
<i>Total Revenues</i>	<u>6,712,248</u>	<u>1,107,419</u>	<u>7,819,667</u>
Expenditures			
Current:			
Instruction:			
Regular	3,237,626	345,644	3,583,270
Special	365,127	122,676	487,803
Vocational	118,059	254	118,313
Other	84,799	11,450	96,249
Support Services:			
Pupils	100,268	3,644	103,912
Instructional Staff	169,416	5,367	174,783
Board of Education	102,854	306	103,160
Administration	819,656	66,739	886,395
Fiscal	271,149	4,334	275,483
Operation and Maintenance of Plant	845,555	68,289	913,844
Pupil Transportation	433,656	-	433,656
Central	6,874	-	6,874
Extracurricular Activities	164,386	91,201	255,587
Food Services	-	307,271	307,271
Capital Outlay	-	2,154	2,154
Debt Service:			
Principal	-	90,000	90,000
Interest	-	68,415	68,415
<i>Total Expenditures</i>	<u>6,719,425</u>	<u>1,187,744</u>	<u>7,907,169</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>(7,177)</u>	<u>(80,325)</u>	<u>(87,502)</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Fixed Assets	838	-	838
Refund of Prior Year Receipts/Expenditures	1,219	(39,415)	(38,196)
<i>Total Other Financing Sources (Uses)</i>	<u>2,057</u>	<u>(39,415)</u>	<u>(37,358)</u>
<i>Net Change in Fund Balances</i>	(5,120)	(119,740)	(124,860)
<i>Fund Balances Beginning of Year, Restated, See Note 17</i>	<u>2,913,383</u>	<u>637,033</u>	<u>3,550,416</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,908,263</u>	<u>\$ 517,293</u>	<u>\$ 3,425,556</u>

See accompany notes to the basic financial statements

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

Net Change in Fund Balances-Total Governmental Funds		\$ (124,860)
<p>Governmental funds report capital outlays as expenditures, However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>		
Capital Outlay	\$ 170,106	
Current Year Depreciation	<u>(404,506)</u>	(234,400)
Revenues in the statement of activities that do not provide current financial resources are deferred in the governmental funds.		2,695
Repayment of long term notes is an expenditure in the governmental funds, the repayment reduces liabilities in the statement of net assets.		90,000
Interest on long-term debt is recognized when due in the governmental funds. However, it is recognized as it accrues in the statement of activities regardless of when it is due.		(5,339)
<p>Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Compensated Absences	\$8,687	
Pension Obligation Payable	<u>(19,657)</u>	<u>(10,970)</u>
Changes in net assets of governmental activities		<u>\$ (282,874)</u>

South Central Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 2,307,257	\$ 2,551,648	\$ 2,106,376	\$ (445,272)
Intergovernmental	3,625,383	4,009,395	4,114,269	104,874
Investment Income	12,240	13,536	34,217	20,681
Tuition and Fees	93,993	103,950	254,697	150,747
Miscellaneous	5,302	5,864	14,416	8,552
<i>Total Revenues</i>	<u>6,044,175</u>	<u>6,684,393</u>	<u>6,523,975</u>	<u>(160,418)</u>
Expenditures:				
Current				
Instruction	4,757,736	5,115,513	3,810,689	1,304,824
Support Services				
Pupils	97,420	104,972	92,092	12,880
Instructional Staff	231,820	249,790	179,463	70,327
Board of Education	93,958	112,273	112,172	101
Administration	868,857	936,209	793,548	142,661
Fiscal	264,100	284,572	258,800	25,772
Operation and Maintenance of Plant	1,324,078	1,421,166	853,520	567,646
Pupil Transportation	475,212	512,049	420,096	91,953
Central	14,000	15,085	6,874	8,211
Extracurricular Activities	203,366	219,130	168,026	51,104
<i>Total Expenditures</i>	<u>8,330,547</u>	<u>8,970,759</u>	<u>6,695,280</u>	<u>2,275,479</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,286,372)</u>	<u>(2,286,366)</u>	<u>(171,305)</u>	<u>2,115,061</u>
Other Financing Sources (Uses):				
Advances In	-	-	178,385	178,385
Advances Out	(5,551)	(5,551)	(212,388)	(206,837)
Other Financing Sources	-	-	2,377	2,377
<i>Total Other Financing Sources (Uses)</i>	<u>(5,551)</u>	<u>(5,551)</u>	<u>(31,626)</u>	<u>(26,075)</u>
<i>Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses</i>	<u>(2,291,923)</u>	<u>(2,291,917)</u>	<u>(202,931)</u>	<u>2,088,986</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	2,547,301	2,547,301	2,547,301	-
Prior Year Encumbrances Appropriated	222,366	222,366	222,366	-
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 477,744</u>	<u>\$ 477,750</u>	<u>\$ 2,566,736</u>	<u>\$ 2,088,986</u>

See accompanying notes to the basic financial statements.

**South Central Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 23,887	\$ 53,768
Cash in Segregated Accounts	-	2,298
	<u>23,887</u>	<u>56,066</u>
Liabilities		
Accounts Payable	2,655	-
Intergovernmental Payable	-	49,926
Due to Students	-	6,140
	<u>2,655</u>	<u>\$ 56,066</u>
Net Assets		
Held in Trust for Scholarships	<u>\$ 21,232</u>	

See accompanying notes to the basic financial statements

**South Central Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004**

	Private Purpose Trust
	Scholarship
Additions	
Interest	\$ 66
Donations	13,511
	13,577
 Deductions	
Scholarships	12,382
Change in Net Assets	1,195
Net Assets Beginning of Year	20,037
Net Assets End of Year	\$ 21,232

See accompanying notes to the basic financial statements

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Note 1. Description of the School District and Reporting Entity

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. The District is a local school district as defined by Section 3311.03 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.

Average daily membership (ADM) as of October 1, 2003, was 940. The District employed 4 administrative and supervisory personnel, approximately 66 certified employees and approximately 43 classified employees. The District is supervised by the County Board of Education, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying basic financial statements comply with the provision of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, and functions for which the district is financially accountable. This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Management believes the financial statements included in this report represent all of the funds of the District over which the board of education is financially accountable.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the South Central Local School District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 Standard Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts; recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the various funds of the District are grouped into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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

Fiduciary Fund Types

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds accounts for

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

B. Basis Of Presentation

Government-wide Financial Statements

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

The government-wide 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and 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.

Fund Financial Statements

The fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is represented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial 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.

C. Basis of Accounting

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 4). 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 non-exchange transactions must also be available before it can be recognized.

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

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 eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendments through the year with the legal restriction, that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated, the primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Tax Budget - Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources - Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the first and final Amended Certificate issued during fiscal year 2004.

Appropriations - Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenditures of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations with functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

The budget figures which appear in the statements of budgetary comparisons represent the first and final appropriation amounts, including all supplemental appropriations.

Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." During the fiscal year all investments were limited to certificates of deposit and the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the STAR Ohio during the fiscal year. 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.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during the fiscal year amounted to \$33,165.

F. Taxes Receivable

The financial statements reflect taxes receivable as of June 30, 2004. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2004 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

G. Inventories

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories is recorded as an expenditure when purchased (purchase method) rather than when consumed.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

I. Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the useful lives of the respective assets, which range between 5 and 50 years.

J. Interfund Balances

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

K. Interfund Activity

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

L. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

in the future should be based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. This method is known as the vesting method.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and, 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The current portion of unpaid compensated absence, which expected to be paid using the available expendable resources, is reported on the governmental funds financial statements. The amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is reported in the Statement of Net Assets as a long-term liability.

M. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the "available period." In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations are recognized as a liability in the fund financial statements when due.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish various reserves. Fund balance reserves have also been established.

O. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and, therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, textbooks, capital maintenance, inventory, property taxes, debt service, 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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

P. 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.

Q. 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.

Note 2. Budgetary Basis of Accounting

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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 for all major governmental funds (budget basis) rather than as a reservation of fund balance for major governmental fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis and budgetary basis statements:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Net Change in Fund Balance-General Fund

Budget Basis	\$(202,931)
Net Adjustment for Revenue Accruals	188,273
Net Adjustment for Expenditure Accruals	(59,057)
Net Adjustment for Other Sources (Uses)	33,683
Adjustment for Encumbrances	<u>34,912</u>
GAAP Basis	<u><u>(\$5,120)</u></u>

Note 3. Cash and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies 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 accounts, including passbook accounts.

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

4. Bond 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 only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$23,779 and the bank balance was \$225,324. \$200,000 of the bank balance was covered Federal Depository Insurance and \$25,324 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or 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 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. STAR Ohio and the money market are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

	Carrying Amount	Fair Value
Star Ohio-not categorized	\$3,282,968	\$3,282,968
Money Market-not categorized	5,552	5,552
Total	\$3,288,520	\$3,288,520

Note 4. Property Tax and Income Tax

Property Tax: Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2003. Real property taxes are payable annually or semi-annually. If paid annually, payment is due in February. If paid semi-annually, the first payment is due in February, with the remainder payable in July.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are payable annually or semi-annually with the first payment due April 30 and the remainder payable by October.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Huron County Treasurer collects property tax on behalf of the District and the County Auditor remits collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and December for personal property taxes.

The full tax rate for the fiscal year ending June 30, 2004 was \$54.25 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the 2004 taxes were collected were as follows:

Real Property-Commercial/Industrial	\$ 4,135,120
Real Property-Residential/Agricultural	51,758,100
Personal Property-General	3,182,530
Personal Property-Public Utilities	6,210,040
Total Assessed Value	\$65,285,790

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Income Tax: The District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the Ohio Department of Taxation. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 5. Receivables

Receivables at June 30, 2004, consisted of taxes, interest, fees and miscellaneous accounts. 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 guarantee of Federal funds.

Note 6. Defined Benefit Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, 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 \$157,320, \$125,940 and \$125,584, respectively; 41 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$93,169 representing the unpaid contribution for fiscal year 2004, including the surcharge, is recorded as a liability.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10 percent of their annual covered salaries and the District is required to contribute 14 percent for the current fiscal year. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$433,272, \$391,176 and \$378,776, respectively; 83 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. \$72,212 representing the unpaid contribution for fiscal year 2004, is recorded as a liability.

Note 7. Postemployment Benefits

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

The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$30,948.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. For the District, this amount equaled \$69,684. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

Note 8. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from board policy, negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. School support personnel accumulate vacation based on length of service as follows:

<u>Length of Service</u>	<u>Vacation Leave</u>
After 11 Months	5 Days
13 to 84 Months	10 Days
7-15 Years	15 Days
15-20 Years	20 Days
20-25 Years	25 Days

Vacation Pay: A support staff employee may accrue vacation leave over a period of two years. The employee may be paid for the unused portion of the vacation annually. Upon separation from employment the employee may be compensated for unused vacation accrued during the two years prior to their separation.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Sick Leave: Each employee receives a minimum of 5 days of sick leave per year. Up to 15 days of sick leave can be earned per year based upon length of service up to a maximum of 240 days. An employee may be compensated for unused sick leave based upon a set percentage which gives consideration for length of service.

Note 9. Interfund Transactions

At June 30, 2004, the District had short-term interfund loans which are classified as "interfund receivables/payables." Receivables and payables resulting from goods provided or services rendered are classified as "due from/to other funds." An analysis of interfund balances is as follows:

Receivable Fund	Payable Funds	
<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
\$254,870	\$240,066	\$14,804

Note 10. Contingencies

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

Note 11. Long Term Liabilities

A summary of changes in long-term obligations for the year ended June 30, 2004, are as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amount Due Within One Year
Classroom Facilities Improvement Bonds	\$1,489,988	\$0	\$90,000	\$1,399,988	\$95,000
Compensated Absences	373,057	19,734	8,687	384,104	56,323
	\$1,863,045	\$19,734	\$98,687	\$1,784,092	\$151,323

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Classroom Facilities Improvement Bonds:

The District has general obligation bonds outstanding with coupon rates ranging from 3.60-5.60%.

Principal and interest requirements to retire the general obligation bonds at June 30, 2004, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
FY2005	\$95,000	64,020	\$159,020
FY2006	100,000	59,290	159,290
FY2007	42,360	124,480	166,840
FY2008	39,788	127,052	166,840
FY2009 & thereafter	1,122,840	617,289	1,740,129
TOTAL	\$ 1,399,988	\$992,131	\$ 2,392,119

Debt Limitations:

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation, unless approved by the State Superintendent of Instruction. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District's unvoted debt limit is \$65,285. The voted debt limit at June 30, 2004 is \$4,475,734.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Note 12. Fixed Assets

The following is a summary of changes in capital assets during the fiscal year 2004:

	<u>Governmental Activities</u>			
	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Capital Assets not being depreciated:				
Land and Improvements	\$291,753	-	-	\$291,753
Capital Assets being depreciated:				
Buildings and improvements	7,942,413	-	-	7,942,413
Furniture/Equipment/Fixtures	2,753,374	\$103,644	-	2,857,018
Vehicles	733,727	66,462	-	800,189
	<u>11,429,514</u>	<u>170,106</u>	<u>-</u>	<u>11,599,620</u>
Total depreciable capital assets	11,429,514	170,106	-	11,599,620
Less accumulated depreciation	<u>(4,383,679)</u>	<u>(404,506)</u>	<u>-</u>	<u>(4,788,185)</u>
	<u>7,045,835</u>	<u>(234,400)</u>	<u>-</u>	<u>6,811,435</u>
Depreciable capital assets, net	7,045,835	(234,400)	-	6,811,435
Governmental activities capital assets, net	<u>\$7,337,588</u>	<u>\$(234,400)</u>	<u>\$ -</u>	<u>\$7,103,188</u>

Depreciation for the year was allocated as follows:

Instruction	\$251,763
Support Services	128,789
Operation of Non-Instructional Services	<u>23,954</u>
Total	<u>\$404,506</u>

The beginning capital asset balance, as of July 1, 2003 was restated by \$729,838 to \$11,721,267.

Note 13. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

During fiscal year 2004, the District purchased general liability insurance which carried a \$1 million per occurrence/\$3 million general aggregate limit with an additional \$2 million umbrella coverage. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. Also, coverages have not been materially reduced in the past year.

OSBA Worker's Compensation Group Rating

The District is a member of the OSBA Worker's Compensation Group Rating Program established in April 1991. The program was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in Section 4123.29, Ohio Revised Code. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

Health Benefits

The District provides employee health care benefits through the Huron-Erie School Employees Insurance Association.

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Association, all association by writing to the Erie-Huron-Ottawa County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Note 14. Jointly Governed Organizations

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school district. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. All revenues are generated from a combination of State funding and an annual fee per student charged to participating districts. Financial information is available from the Erie County Educational Service Center (fiscal agent) at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Note 15. 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 decision 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 on its financial operations.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

Note 16. Statutory 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 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.

Effective April 10, 2001, Senate Bill 345, eliminated the requirement that the Districts' establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the act.

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

	<u>Textbook Acquisition</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Total</u>
Set aside Cash Balance As of June 30, 2003	\$ 243,153	\$ 256,787	\$ 168,961	\$ 668,901
Set-Aside Requirement	166,197	166,197	0	332,394
Qualifying Disbursements	<u>\$ (222,020)</u>	<u>\$ (251,459)</u>	<u>\$ 0</u>	<u>\$(473,479)</u>
Total	<u>\$ 187,330</u>	<u>\$ 171,525</u>	<u>\$ 168,961</u>	<u>\$ 527,816</u>
Cash Balance Carried Forward to FY2005	<u>\$ 187,330</u>	<u>\$ 171,525</u>	<u>\$ 168,961</u>	
Amount Restricted for Budget Stabilization				<u>\$ 168,961</u>

The budget stabilization reserve was restated to \$168,961.

Note 17. Changes in Accounting Principals and Restatement of Fund Balance

For the fiscal year 2004, the School District has implemented GASB No. 34, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments", GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", GASB No. 41, "Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34", 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 balances as a result of implementing GASB Statements No. 37, 38, and 41, and Interpretation No. 6.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004**

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Prior year Enterprise Funds were reclassified to Special Revenue Funds.

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

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2003	<u>\$2,913,383</u>	<u>\$637,033</u>	\$3,550,416
GASB 34 Adjustments:			
Capital Assets			7,337,588
Deferred Revenue			51,191
Pension Obligation			(47,291)
Compensated Absences			(373,057)
General Obligation Bonds			<u>(1,489,988)</u>
Restated Net Assets June 30, 2003			<u>\$9,028,859</u>

SOUTH CENTRAL LOCAL SCHOOL DISTRICT

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/Program Title	Pass Through Entity Number/ Grant Number	CFDA Number	Program Expenditures
<u><i>U.S. Department of Agriculture</i></u>			
Passed Through the Ohio Department of Education			
Nutrition Cluster:			
Food Distribution	N/A	10.550	\$ 36,146
National School Breakfast Program	050047-05PU-2004	10.553	15,331
National School Lunch Program	050047-LLP4-2004	10.555	<u>82,788</u>
Total Nutrition Cluster			<u>134,265</u>
Total U.S. Department of Agriculture			134,265
<u><i>U.S. Department of Education</i></u>			
Passed through Ohio Department of Education			
Special Education Cluster:			
Title VI-B	6BSF-2002	84.027	22,511
Title VI-B	6BSF-2003	84.027	15,536
Title VI-B	6BSF-2004	84.027	78,816
Title VI-B - Accessibility Grant	6BSF-9700	84.027	41,384
Access Continuation Grant	6BSF-9701	84.027	<u>5,286</u>
Total Special Education Cluster			163,533
Title I	C1S1-2001	84.010	70,725
Title I	C1S1-2003	84.010	43,100
Title I	C1S1-2004	84.010	<u>144,165</u>
Total Title I			257,990
Title II-A Improving Teacher Quality	TRS1-2003	84.367	42,279
Title II-A Improving Teacher Quality	TRS1-2004	84.367	<u>70,759</u>
Total Title II-A			113,038
Continuous Improvement Grant	N/A	84.276	911
Continuous Improvement Grant	N/A	84.276	<u>203</u>
Total Continuous Improvement Grant			1,114
Comprehensive School Reform	9800	84.332	10,186
Comprehensive School Reform	9801	84.332	21,298
Comprehensive School Reform	9802	84.332	<u>25,599</u>
Total Comprehensive School Reform			57,083
Title VI	C2S1-9001	84.298	796
Title VI	C2S1-9202	84.298	5,533
Title VI	C2S1-9299	84.298	<u>70</u>
Total Title VI			6,399
Drug Free Grant	FY 2000	84.186	3,910
Drug Free Grant	FY 2002	84.186	6,199
Drug Free Grant	FY 2003	84.186	1,088
Drug Free Grant	FY 2004	84.186	2,672
Drug Free Grant Carryover	FY 1999	84.186	<u>407</u>
Total Drug Free Grant			14,276

SOUTH CENTRAL LOCAL SCHOOL DISTRICT
Schedule of Federal Awards Expenditures - (continued)
For the Year Ended June 30, 2004

Federal Grantor/Program Title	Pass Through Entity Number/ Grant Number	CFDA Number	Program Expenditures
<u>U.S. Department of Education-(continued)</u>			
Passed through Ohio Department of Education-(continued)			
Title VI-R Class Size Reduction	9002	84.340	17,524
Title VI-R Class Size Reduction	9998	84.340	<u>773</u>
Total Title VI-R Class Size Reduction			18,297
Assistive Technology Infusion Grant	9005	84.352	<u>556</u>
Total Assistive Technology Infusion Grant			556
Title II-D Technology Grant	9003	84.318	6,874
Title II-D Technology Grant	9005	84.318	2,866
Title II-D Technology Grant	9006	84.318	<u>4,591</u>
Total Title II-D Technology Grant			14,331
Title II Eisenhower Professional Development	N/A	84.281	9
Title II Eisenhower Professional Development	N/A	84.281	<u>423</u>
Total Title II Eisenhower Professional Development			<u>432</u>
Total U.S. Department of Education			647,049
<u>U.S Department of Labor</u>			
Passed through Ohio Department of Education:			
School-to-Work	WK-BE-97	17.249	<u>2,210</u>
Total U.S. Department of Labor			<u>2,210</u>
Total Federal Expenditures		\$	<u><u>783,524</u></u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

SOUTH CENTRAL LOCAL SCHOOL DISTRICT
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had commodities in inventory recorded in the Food Service Fund.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

**Board of Education
South Central Local School District
Greenwich, Ohio**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Local School 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 June 20, 2005, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated June 20, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving compliance or other matters that we have reported to the management of the District in a separate letter dated June 20, 2005.

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

Charles E. Harris & Associates, Inc.
June 20, 2005

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

**Board of Education
South Central Local School District
Greenwich, Ohio**

Compliance

We have audited the compliance of the South Central Local School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Charles E. Harris & Associates, Inc.
June 20, 2005

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
June 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Program:</i>	Title I CFDA# 84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY
June 30, 2004

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2003, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SOUTH CENTRAL LOCAL SCHOOL DISTRICT

HURON 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
NOVEMBER 17, 2005**