



**Auditor of State
Betty Montgomery**

**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Switzerland of Ohio Local School District
Monroe County
304 Mill Street
Woodsfield, Ohio 43793

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Switzerland of Ohio Local School District, Monroe County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Switzerland of Ohio Local School District, Monroe County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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*. You should read it in conjunction with this report in assessing the results of our audit.

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

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Switzerland of Ohio Local School District
Monroe County
Independent Accountants' Report
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We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

Betty Montgomery
Auditor of State

January 31, 2005

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

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

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,126,958.
- General revenues accounted for \$17,662,962 in revenue or 76.7 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,363,919 or 23.3 percent of total revenues of \$23,026,881.
- Total assets of governmental activities decreased by \$1,868,119. The majority of this decrease is a result of property and other local taxes receivable decreasing by \$1,246,772.
- The School District had \$24,153,839 in expenses related to governmental activities; only \$5,363,919 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$17,662,962 were not adequate enough to provide for these programs.
- The School District's only major fund is the General Fund. The General Fund had \$19,458,078 in revenues and \$19,119,980 in expenditures. The General Fund's balance increased \$290,120.

Using this Basic Financial Statements Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Switzerland of Ohio Local School District, the General Fund is the only major fund.

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2003-2004 fiscal year?" 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 School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

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

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

**Table I
Net Assets**

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current and Other Assets	\$12,003,474	\$13,544,358
Capital Assets	8,368,168	8,711,254
Total Assets	<u>20,371,642</u>	<u>22,255,612</u>
Liabilities		
Long-Term Liabilities	(1,912,372)	(1,975,513)
Other Liabilities	(8,937,344)	(9,631,215)
Total Liabilities	<u>(10,849,716)</u>	<u>(11,606,728)</u>
Net Assets		
Invested in Capital Assets, Net of Debt	8,362,326	8,696,240
Restricted	833,224	550,880
Unrestricted	326,376	1,401,764
Total Net Assets	<u>\$9,521,926</u>	<u>\$10,648,884</u>

Total assets decreased \$1,868,119. As stated earlier, property and other local taxes receivable decreased by \$1,246,772 from the prior year. Also there was a slight decrease in the net value of capital assets resulting from current year depreciation exceeding capital asset additions.

In total, liabilities decreased by \$757,012 largely the result of deferred revenue decreasing by \$685,310. This decrease is attributable to the decrease in property and other local taxes receivable and the timing of grant revenue not intended to finance current year operations. Also, accounts payable decreased by \$113,104 from fiscal year 2003.

Net assets decreased \$1,126,958. The biggest change in net assets is reflected in the General Fund where unrestricted net assets decreased by \$618,721. Most of this increase is due to all of the reasons stated above. In summary, the increase in the General Fund's liabilities exceeded the increase in it's assets from the prior year.

Table 2 shows the changes in net assets for fiscal year 2004.

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

**Table 2
Changes in Net Assets**

Revenues	Governmental Activities	
	2004	2003
Program Revenues		
Charges for Services and Sales	\$783,845	\$713,286
Operating Grants, Contributions, and Interest	4,525,055	4,480,035
Capital Grants and Contributions	55,019	115,613
	<u>5,363,919</u>	<u>5,308,934</u>
General Revenue		
Property Taxes	7,571,039	9,737,091
Grants and Entitlements	9,754,452	9,579,198
Investment Earnings	59,303	73,655
Miscellaneous	278,168	366,054
	<u>17,662,962</u>	<u>19,755,998</u>
Total Revenues	<u>23,026,881</u>	<u>25,064,932</u>
Program Expenses		
Instruction		
Regular	9,522,893	8,758,208
Special	2,532,855	2,599,483
Vocational	2,060,058	2,024,443
Adult/Continuing	38,275	52,663
Support Services		
Pupils	757,726	675,725
Instructional Staff	1,073,001	978,898
Board of Education	18,141	17,705
Administration	1,719,947	1,934,232
Fiscal	568,911	645,322
Operation and Maintenance of Plant	1,783,824	1,833,828
Pupil Transportation	2,418,168	2,152,873
Central	79,385	73,735
Operation of Non-Instructional Services	986,783	946,250
Extracurricular Activities	591,878	571,744
Interest and Fiscal Charges	1,994	7,055
Total Expenses	<u>24,153,839</u>	<u>23,272,164</u>
Increase in Net Assets	<u>(\$1,126,958)</u>	<u>\$1,792,768</u>

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 32.9 percent of revenues for governmental activities for Switzerland of Ohio Local School District in fiscal year 2004.

Despite the School District receiving additional short-term revenues from the passage of House Bill 95, the School District operates on a very tight budget, revenue sources are not projected to keep pace with

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

inflation, creating possible operating deficits in the future. Enrollment is also a factor in the finances of the School District, with enrollment declining in all but one of the last thirty years. In addition, the School District has a net loss of approximately \$445,389 on open enrollment in fiscal year 2004, which represents approximately \$85,000 in local tax dollars going to other school districts.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004 compared to fiscal year 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities**

	2004 Total Cost of Services	2004 Net Cost of Services	2003 Total Cost of Services	2003 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$9,522,893	\$8,531,988	\$8,758,208	\$7,891,960
Special	2,532,855	756,701	2,599,483	636,267
Vocational	2,060,058	1,705,606	2,024,443	1,651,691
Adult/Continuing	38,275	5,316	52,663	13,633
Support Services:				
Pupils	757,726	620,083	675,725	557,607
Instructional Staff	1,073,001	591,227	978,898	562,246
Board of Education	18,141	18,141	17,705	17,705
Administration	1,719,947	1,648,085	1,934,232	1,825,357
Fiscal	568,911	567,873	645,322	645,322
Operation and Maintenance of Plant	1,783,824	1,770,028	1,833,828	1,824,227
Pupil Transportation	2,418,168	2,242,540	2,152,873	1,928,262
Central	79,385	19,088	73,735	64,231
Operation of Non-Instructional Services	986,783	42,303	946,250	52,690
Extracurricular Activities	591,878	268,947	571,744	284,977
Interest and Fiscal Charges	1,994	1,994	7,055	7,055
Totals	\$24,153,839	\$18,789,920	\$23,272,164	\$17,963,230

Instructional programs comprise approximately 58.6 percent of total governmental program expenses. Of the instructional expenses, approximately 67 percent is for regular instruction, 18 percent for special instruction, and 15 percent for vocational and adult/continuing instructions.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 77.8 percent of the School District's activities being supported through taxes and other general revenues.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24,289,830 and expenditures of \$24,024,246.

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

The net change in fund balance for the year was most significant in the General Fund, an increase of \$290,120. The change in the remaining governmental funds is reflecting a decrease of \$14,811.

Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its General Fund appropriations, but not significantly.

For the General Fund, budget basis revenues were \$10,123 above final estimates of \$18,861,258. This is a result of very conservative and precise estimates based on the County Auditor's Certification and state funding estimates.

The School District's ending un-obligated general fund balance was \$2,805,637.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$8,368,168 invested in land, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

**Table 4
Capital Assets at June 30
(Net of Depreciation)**

	<u>Government Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$678,604	\$678,604
Buildings and Improvements	5,041,536	5,086,463
Furniture and Equipment	1,099,766	1,193,683
Vehicles	<u>1,548,262</u>	<u>1,752,504</u>
Totals	<u><u>\$8,368,168</u></u>	<u><u>\$8,711,254</u></u>

See Note 9 for more detailed information of the School District's capital assets.

**Switzerland of Ohio Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Debt

The School District had a capital leases outstanding at June 30, 2004 in the amount of \$5,842 with \$2,804 due in one year. See Note 16 for more detailed information about the School District's debt.

Set-asides

For fiscal year 2004, Ohio Law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2004, this amounted to \$405,206 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding the \$405,206 requirement for textbooks and capital maintenance. See Note 20 for additional information about the School District's set-asides.

Economic Factors

Switzerland of Ohio Local School District ended fiscal year 2004 with a positive cash flow. Currently we are fiscally healthy but there are some uncontrollable variables that will affect future revenues. Some of these include the elimination of the three year averaging for ADM, accelerated phase out of personal property tax on inventory, state deduction for fees from rollback and homestead funds, loss of .05 for vocational students, reduction of bus subsidy and the exodus of students to other school districts through open enrollment due to our financial inability to offer educational facilities that are comparable to surrounding school districts who the State of Ohio funds at a higher level for facilities.

Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Kevin Robertson, Treasurer at Switzerland of Ohio Local School District, 304 Mill Street, Woodsfield, Ohio, 43793, or e-mail at sw_kevin@omeresanet

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Switzerland of Ohio Local School District, Ohio
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,861,529
Accounts Receivable	3,843
Intergovernmental Receivable	100,010
Materials and Supplies Inventory	1,125
Inventory Held for Resale	5,360
Prepaid Items	63,921
Property Taxes Receivable	7,967,686
Nondepreciable Capital Assets	678,604
Depreciable Capital Assets, Net	7,689,564
Total Assets	20,371,642
Liabilities	
Accounts Payable	92,879
Accrued Wages and Benefits Payable	1,984,014
Intergovernmental Payable	513,330
Matured Compensated Absences Payable	48,654
Special Termination Benefits Payable	134,719
Deferred Revenue	6,163,748
Long-Term Liabilities:	
Due Within One Year	191,866
Due In More Than One Year	1,720,506
Total Liabilities	10,849,716
Net Assets	
Invested in Capital Assets, Net of Related Debt	8,362,326
Restricted for:	
Capital Projects	355,773
Other Purposes	314,236
Budget Stabilization	108,196
Bus Purchase	55,019
Unrestricted	326,376
Total Net Assets	\$9,521,926

See accompanying notes to the basic financial statements.

Switzerland of Ohio Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net Expense and Change in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$9,522,893	\$66,725	\$924,180		(\$8,531,988)
Special	2,532,855		1,776,154		(756,701)
Vocational	2,060,058	33,157	321,295		(1,705,606)
Adult/Continuing	38,275		32,959		(5,316)
Support Services:					
Pupils	757,726		137,643		(620,083)
Instructional Staff	1,073,001		481,774		(591,227)
Board of Education	18,141				(18,141)
Administration	1,719,947		71,862		(1,648,085)
Fiscal	568,911		1,038		(567,873)
Operation and Maintenance of Plant	1,783,824	690	13,106		(1,770,028)
Pupil Transportation	2,418,168		120,609	55,019	(2,242,540)
Central	79,385		60,297		(19,088)
Operation of Non-Instructional Services	986,783	360,342	584,138		(42,303)
Extracurricular Activities	591,878	322,931			(268,947)
Interest	1,994				(1,994)
Total Governmental Activities	<u>\$24,153,839</u>	<u>\$783,845</u>	<u>\$4,525,055</u>	<u>\$55,019</u>	<u>(18,789,920)</u>
General Revenues					
Property Taxes Levied for:					
					7,001,301
					569,738
					9,754,452
					59,303
					278,168
					<u>17,662,962</u>
					(1,126,958)
					<u>10,648,884</u>
					<u>\$9,521,926</u>

See accompanying notes to the basic financial statements.

Switzerland of Ohio Local School District, Ohio

Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,866,280	\$832,034	\$3,698,314
Materials and Supplies Inventory		1,125	1,125
Inventory Held for Resale		5,360	5,360
Accounts Receivable	3,124	719	3,843
Interfund Receivable	43,055		43,055
Intergovernmental Receivable	4,333	95,677	100,010
Prepaid Items	63,921		63,921
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	163,215		163,215
Property Taxes Receivable	7,365,616	602,070	7,967,686
Total Assets	<u>\$10,509,544</u>	<u>\$1,536,985</u>	<u>\$12,046,529</u>
Liabilities			
Accounts Payable	\$65,833	\$27,046	\$92,879
Accrued Wages and Benefits Payable	1,648,178	335,836	1,984,014
Interfund Payable		43,055	43,055
Intergovernmental Payable	392,491	79,448	471,939
Matured Compensated Absences Payable	48,654		48,654
Special Termination Benefits Payable	134,719		134,719
Deferred Revenue	6,052,207	526,396	6,578,603
Total Liabilities	<u>8,342,082</u>	<u>1,011,781</u>	<u>9,353,863</u>
Fund Balances			
Reserved for Encumbrances	163,903	241,863	405,766
Reserved for Bus Purchase	55,019	0	55,019
Reserved for Unclaimed Monies	2,021	0	2,021
Reserved for Budget Stabilization	108,196	0	108,196
Reserved for Property Taxes	1,313,409	107,006	1,420,415
Unreserved:			
Undesignated, Reported in:			
General Fund	524,914		524,914
Special Revenue Funds		(11,199)	(11,199)
Capital Projects Funds		187,534	187,534
Total Fund Balances	<u>2,167,462</u>	<u>525,204</u>	<u>2,692,666</u>
Total Liabilities and Fund Balances	<u>\$10,509,544</u>	<u>\$1,536,985</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,368,168
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	383,523	
Grants	<u>31,332</u>	414,855

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(41,391)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Compensated Absences	(1,906,530)	
Capital Leases	<u>(5,842)</u>	(1,912,372)

Net Assets of Governmental Activities	<u>\$9,521,926</u>
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See accompanying notes to the basic financial statements.

Switzerland of Ohio Local School District, Ohio
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			
Property Taxes	\$8,057,737	\$661,481	\$8,719,218
Intergovernmental	11,019,290	3,428,926	14,448,216
Interest	58,478	1,905	60,383
Tuition and Fees	66,725	31,222	97,947
Extracurricular Activities		291,709	291,709
Rentals	690		690
Charges for Services		393,499	393,499
Miscellaneous	255,158	23,010	278,168
Total Revenues	<u>19,458,078</u>	<u>4,831,752</u>	<u>24,289,830</u>
Expenditures			
Current:			
Instruction:			
Regular	7,987,527	1,312,588	9,300,115
Special	1,591,851	959,591	2,551,442
Vocational	2,018,002	54,370	2,072,372
Adult/Continuing		37,705	37,705
Support Services:			
Pupils	610,984	148,636	759,620
Instructional Staff	537,316	529,911	1,067,227
Board of Education	18,528		18,528
Administration	1,578,077	75,069	1,653,146
Fiscal	543,532	24,643	568,175
Operation and Maintenance of Plant	1,794,699	10,167	1,804,866
Pupil Transportation	2,173,499	112,122	2,285,621
Central	411	65,404	65,815
Operation of Non-Instructional Services		974,402	974,402
Extracurricular Activities	251,388	347,215	598,603
Capital Outlay	3,000	252,443	255,443
Debt Service:			
Principal Retirement	9,172		9,172
Interest and Fiscal Charges	1,994		1,994
Total Expenditures	<u>19,119,980</u>	<u>4,904,266</u>	<u>24,024,246</u>
Excess of Revenues Over/(Under) Expenditures	<u>338,098</u>	<u>(72,514)</u>	<u>265,584</u>
Other Financing Sources (Uses)			
Transfers In		57,703	57,703
Proceeds from Sale of Capital Assets	9,725		9,725
Transfers Out	(57,703)		(57,703)
Total Other Financing Sources (Uses)	<u>(47,978)</u>	<u>57,703</u>	<u>9,725</u>
Net Change in Fund Balances	290,120	(14,811)	275,309
Fund Balances Beginning of Year	<u>1,877,342</u>	<u>540,015</u>	<u>2,417,357</u>
Fund Balances End of Year	<u>\$2,167,462</u>	<u>\$525,204</u>	<u>\$2,692,666</u>

See accompanying notes to the basic financial statements.

Switzerland of Ohio Local School District, Ohio
 Reconciliation of the Changes in Fund Balances of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$275,309

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

	Fixed Asset Additions	\$392,504	
	Current Year Depreciation	<u>(513,576)</u>	(121,072)

Governmental funds only report the disposal of fixed assets to the extent proceeds were received.

In the statement of activities, a loss has been reported for \$222,014. The resulting difference is used as a reconciling item between the statement of activities and the fund financial statements. (222,014)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

	Property Taxes	(1,148,179)	
	Grants	<u>(114,770)</u>	(1,262,949)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

	Compensated Absences	53,969	
	Capital Leases Payable	9,172	
	Special Termination Benefits	15,324	
	Pension Obligation	<u>125,303</u>	<u>203,768</u>

Change in Net Assets of Governmental Activities (\$1,126,958)

See accompanying notes to the basic financial statements.

Switzerland of Ohio Local School District, Ohio
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		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$7,600,000	\$7,518,800	\$7,518,904	\$104
Intergovernmental	10,554,600	10,970,076	10,970,000	(76)
Interest	70,000	55,000	58,478	3,478
Tuition and Fees	63,000	66,180	66,747	567
Rentals		590	690	100
Miscellaneous	149,400	250,612	256,562	5,950
Total Revenues	18,437,000	18,861,258	18,871,381	10,123
Expenditures				
Current:				
Instruction:				
Regular	6,879,861	7,990,081	7,899,087	90,994
Special	1,687,500	1,768,735	1,619,691	149,044
Vocational	1,855,640	2,050,788	2,042,274	8,514
Support Services:				
Pupils	498,616	619,379	616,521	2,858
Instructional Staff	510,110	550,947	548,390	2,557
Board of Education	27,400	22,225	18,809	3,416
Administration	1,595,251	1,582,533	1,569,345	13,188
Fiscal	658,583	592,789	550,247	42,542
Operation and Maintenance of Plant	1,810,109	1,905,953	1,868,348	37,605
Pupil Transportation	2,196,694	2,326,617	2,176,187	150,430
Central	53,830	690	411	279
Extracurricular Activities	167,500	276,390	259,275	17,115
Capital Outlay	167,500	40,000	3,000	37,000
Debt Service:				
Principal Retirement	7,828	9,172	9,172	0
Interest and Fiscal Charges	3,342	1,994	1,994	0
Total Expenditures	18,119,764	19,738,293	19,182,751	555,542
Excess of Revenues Over/(Under) Expenditures	317,236	(877,035)	(311,370)	565,665
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	3,000	9,722	9,725	3
Refund of Prior Year Expenditures		57,845	57,846	1
Advances In	23,379	104,360	104,364	4
Advances Out	(100,000)	(100,000)	(43,055)	56,945
Transfers Out	(100,000)	(100,000)	(57,703)	42,297
Total Other Financing Sources (Uses)	(173,621)	(28,073)	71,177	99,250
Net Change in Fund Balance	143,615	(905,108)	(240,193)	664,915
Fund Balance Beginning of Year	2,554,918	2,554,918	2,554,918	0
Prior Year Encumbrances Appropriated	490,912	490,912	490,912	0
Fund Balance End of Year	\$3,189,445	\$2,140,722	\$2,805,637	\$664,915

See accompanying notes to the basic financial statements

Switzerland of Ohio Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$81,547</u>
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Liabilities

Undistributed Monies	\$848
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Due to Students	<u>80,699</u>
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Total Liabilities	<u>\$81,547</u>
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See accompanying notes to the basic financial statements

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Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally elected five-member board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's thirteen instructional/support facilities staffed by 118 non-certificated employees, 220 certificated full time teaching personnel and 24 administrative employees who provide services to 2,732 students and other community members.

The School District is the largest in square miles in the State. It is located in Monroe County and portions of Noble and Belmont Counties.

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

Parochial School – Within the School District boundaries, St. Sylvester's School is operated through the Steubenville Catholic Diocese. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activities of these State monies by the School District are reflected in a special revenue fund for financial reporting purposes due to GASB Statement No. 24.

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

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Village of Woodsfield The village government of Woodsfield is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village service. Council acts as the taxing and budgeting authority for these village services.

Townships located within School District Township governments are separate bodies politic and corporate. A board of trustees and clerk are elected independent of any School District relationships and administer the traditional township services. The trustees act as the taxing and budgeting authority for these services.

PTO and Athletic Boosters These organizations exist to support the various endeavors of the School District through donations of time and other resources. Although the School District benefits directly from the activities, the School District neither manages nor directs the operations nor provides financial support to these

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

groups.

Switzerland of Ohio Education Association The association is operated under Ohio Bargaining Law, which requires a separation of the bargaining unit and the School District. The Association represents the eligible certificated employees of the School District regarding personnel related matters. The School District does not designate or appoint the representatives, approve and revise budgets, supervise accounting functions, or assume responsibility for financing deficits. Therefore, the Association is not included in the reporting entity.

The School District participates in three organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Center (OME-RESA), the Southeastern Ohio Special Education Regional Resource Center (SEO-SERCC), the Coalition of Rural and Appalachian Schools, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

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

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

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

C. Measurement Focus

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

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures 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.

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2004, the School District's investments were limited to an overnight repurchase sweep account and STAROhio. The nonparticipating investment contracts and repurchase agreements are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$58,478, which includes \$10,869 assigned from other School District funds.

Investments of cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	30 years
Furniture and Equipment	5-7 years
Vehicles	10 years

I. Inter-fund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans and unpaid amounts for inter-fund services are classified as "inter-fund receivables/payables". These amounts are eliminated in the statement of net assets.

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and an amount set aside for bus purchase. See Note 20 for additional information regarding set asides.

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

M. Inter-fund 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 inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five-year period is presented as reserved.

O. 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

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.

R. Budgetary Data

All funds, other than agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

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

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

Note 3 – Change in Accounting Principle

For fiscal year 2004, the School District implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of the new statement had no effect on the School District's financial statements for fiscal year 2004.

Note 4 – Accountability

At June 30, 2004, the DPIA, IDEA Part B, and Title I Special Revenue Funds had deficit fund balances in the amounts of \$13,764, \$26,822, and \$122,382, respectively. These deficits are due to adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$290,120
Net Adjustment for Revenue Accruals	(528,851)
Net Adjustment for Expenditure Accruals	161,087
Advances In	104,364
Advances Out	(43,055)
Adjustment for Encumbrances	<u>(223,858)</u>
Budget Basis	<u><u>(\$240,193)</u></u>

Note 6 - Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$3,805,023 and the bank balance was \$3,934,024. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$3,734,024 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio which is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and market value of the School District's STAROhio account at June 30, 2004 is \$106,853.

	Category 1	Category 2	Category 3	Carrying and Fair Value
Repurchase Agreement	\$0	\$0	\$31,200	\$31,200

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement 9	\$3,943,076	\$0
STAROhio	(106,853)	106,853
Investment in Repurchase Agreement	<u>(31,200)</u>	<u>31,200</u>
GASB Statement 3	<u>\$3,805,023</u>	<u>\$138,053</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Monroe, Belmont and Noble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, personal property and public utility taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations. The amount available as an advance at June 30, 2004, was \$1,420,415. \$1,313,409 was available to the General Fund and \$107,006 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$833,698. \$774,576 was available to the General Fund and \$59,122 in the Permanent Improvement Capital Projects Fund. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

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

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$191,324,040	60.84%	\$191,324,040	60.84%
Public Utility Personal	46,204,210	14.69%	46,204,210	14.69%
Tangible Personal Property	76,958,100	24.47%	76,958,100	24.47%
Total	<u>\$314,486,350</u>	<u>100.00%</u>	<u>\$314,486,350</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$21.92		 \$21.92	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, student fees and tuition), intergovernmental grants, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	<u>Amounts</u>
Governmental Activities	
Food Service Reimbursements	\$46,521
Title I	2,824
Miscellaneous Reimbursements	4,333
Miscellaneous Fed Grants	<u>46,332</u>
Total	<u><u>\$100,010</u></u>

Note 9 - Capital Assets

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

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
Nondepreciable Capital Assets				
Land	<u>\$678,604</u>	<u>\$0</u>	<u>\$0</u>	<u>\$678,604</u>
Depreciable Capital Assets				
Buildings and Improvements	12,534,438	208,411	0	12,742,849
Furniture and Equipment	3,495,954	68,481	(40,759)	3,523,676
Vehicles	<u>3,294,428</u>	<u>115,612</u>	<u>(439,841)</u>	<u>2,970,199</u>
Total at Historical Cost	<u>19,324,820</u>	<u>392,504</u>	<u>(480,600)</u>	<u>19,236,724</u>
Less Accumulated Depreciation				
Buildings and Improvements	(7,447,975)	(253,338)	0	(7,701,313)
Furniture and Equipment	(2,302,271)	(149,646)	28,007	(2,423,910)
Vehicles	<u>(1,541,924)</u>	<u>(110,592)</u>	<u>230,579</u>	<u>(1,421,937)</u>
Total Accumulated Depreciation	<u>(11,292,170)</u>	<u>(513,576) *</u>	<u>258,586</u>	<u>(11,547,160)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>8,032,650</u>	<u>(121,072)</u>	<u>(222,014)</u>	<u>7,689,564</u>
Governmental Activities Capital Assets, Net	<u><u>\$8,711,254</u></u>	<u><u>(\$121,072)</u></u>	<u><u>(\$222,014)</u></u>	<u><u>\$8,368,168</u></u>

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$177,670
Special	32,881
Vocational	55,835
Adult/Continuing	570
Support Services:	
Pupils	19,618
Instructional Staff	14,011
Administration	49,548
Fiscal	5,064
Operation of Maintenance and Plant	19,747
Pupil Transportation	111,152
Operation of Non-Instructional Services	26,733
Central	<u>747</u>
Total Depreciation Expense	<u><u>\$513,576</u></u>

Note 10 - Interfund Balances

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$43,055	
Miscellaneous Federal Grants		43,055
Total	<u><u>\$43,055</u></u>	<u><u>\$43,055</u></u>

The above advances were to subsidize these programs until grant reimbursement is received. These advances will be repaid in fiscal year 2005.

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District purchased the following coverage:

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Indiana Insurance

Fleet Insurance:

Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive		actual cash value
Physical Damage		actual cash value
Collision		actual cash value

General Liability:

Bodily Injury and Property Damage	\$1,000,000	each occurrence
Fire Damage	\$500,000	any one event
Medical Expense	\$15,000	each accident
General Aggregate	\$2,000,000	
Products Aggregate	\$2,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	

Indiana Insurance

Building, Personal Property, and Contents	\$39,868,545
Inland Marine	\$7,778

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last fiscal year.

B. Worker's Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 12 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time. Teachers, administrative and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave accumulation is limited to 250 days. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Aetna Insurance Company. Coverage in the amount of \$50,000 is provided for all certified employees and \$25,000 for non-certified employees. Administrators have coverage of twice their salary amount with a maximum of \$100,000.

The School District has contracted with Aetna Insurance Company to provide employee medical/surgical, and dental benefits. Rates are set through an annual calculation process. The employee shares the cost of the monthly premium with the Board for medical /surgical benefits. For fiscal year 2004, the School District's and the employees' premiums for medical/surgical benefits for the staff were \$897 and \$99 for family coverage and \$320 and \$36 for single coverage per employee per month, respectively. The premium for dental coverage was funded entirely by the School District at \$58 and \$21 per employee per month for family and single coverage, respectively .

The School District has contracted with Vision Service Plan to provide employee vision benefits. Rates are set through an annual calculation process. The employee shares the cost of the monthly premium with the Board for vision benefits. For fiscal year 2004, the School District's and the employees' premiums for vision benefits for the staff were \$11 and \$1 for family coverage and \$5 and \$1 for single coverage per employee per month, respectively.

C. Special Termination Benefits Payable

The School District's negotiated agreement with the Switzerland of Ohio Education Association provides for payment of one-half of total accumulated sick leave to any certificated staff who is covered under their contract and retires in the first year that they become eligible to receive benefits from the State Teachers Retirement Board. Any certificated staff covered under this contract who retires at any other time is eligible to receive one-fourth of their accumulated sick leave.

The School District's negotiated agreement with OAPSE/AFSCME Local 4 provides for payment of one-fourth of total accumulated sick leave to any classified employee covered under their contract who retires while in service with the School District.

The School District's policies provide for payment of one-fourth of accumulated sick leave to any administrative staff who retires from service with the School District.

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$245,345, \$206,343 and \$135,462, respectively; 47 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$128,992 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$1,256,736, \$1,204,460, and \$836,067 respectively; 80 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$19,809 made by the plan members and \$9,700 made by the School District.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, there is one employee who has elected Social Security.

Note 14 – Post-Employment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$96,672 for fiscal year 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.

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, a decrease of .92 percent from fiscal year 2003. 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. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$173,915.

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. Gross 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 15 - Capitalized Leases

The School District has capitalized leases for a photocopying machine. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statement for the governmental funds. Principal payments in fiscal year 2004 total \$9,172 in the General Fund.

Future minimum lease payments through 2006 for governmental activities are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$2,804	\$366
2006	3,038	133
Total	<u>\$5,842</u>	<u>\$499</u>

Note 16 - Long-Term Obligations

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

	Outstanding 06/30/03	Additions	Reductions	Outstanding 06/30/04	Due in One Year
Governmental Activities:					
Compensated Absences	\$1,960,499	\$183,302	\$237,271	\$1,906,530	\$189,062
Capital Leases	15,014	0	9,172	5,842	2,804
Total Long-Term Obligations	<u>\$1,975,513</u>	<u>\$183,302</u>	<u>\$246,443</u>	<u>\$1,912,372</u>	<u>\$191,866</u>

Switzerland of Ohio Local School District, Ohio

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

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service, DPIA, IDEA Part B, and Title I Special Revenue Funds. The capital leases will be paid from the General Fund.

Note 17 - Jointly Governed Organizations

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member School Districts. OME-RESA is governed by a governing board which is selected by the member School Districts. OME-RESA possesses its own budgeting authority. The Jefferson County Educational Service Center serves as fiscal agent and receives funding from the State Department of Education. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952. During fiscal year 2004, the School District contracted with OME-RESA for an annual amount of \$57,829.

South Eastern Ohio Special Education Regional Resource Center – The South Eastern Ohio Special Education Regional Resource Center (SEO-SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEO-SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Coalition of Rural and Appalachian Schools – The Coalition of Rural and Appalachian Schools is a jointly governed organization including over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various in-service for school administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition.

Note 18 - Insurance Purchasing Pool

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

Switzerland of Ohio Local School District, Ohio

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

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2004.

B. Litigation

During fiscal year 2004, the School District was a party to a legal proceeding involving an accident at one of its high schools in which a student was struck by a private vehicle. The School District's insurance company at the time of the accident was Nationwide Insurance Company and their legal council has been handling the School Districts' defense to the claim. Any liability arising from this claim will likely not exceed the insurance coverage in place at the time and therefore, there has been no accrual made for this claim. Subsequently, the School District has been notified that it has been released from this claim and is no longer a defendant in this case.

Note 20 - Set Asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for School Districts to establish and appropriate money for the budget stabilization was deleted from law. A School District may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a School District's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the School District's general fund or may be left in the account and used by the board to offset any budget deficit the School District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve set-aside.

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

Switzerland of Ohio Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0	\$108,196
Carry over of Prior Year Qualifying Disbursements	(1,337,285)	0	0
Current Year Set-aside Requirement	405,206	405,206	0
Current Year Offsets	(294,923)	(393,740)	0
Qualifying Disbursements	<u>(456,186)</u>	<u>(11,466)</u>	<u>0</u>
Total	<u>(\$1,683,188)</u>	<u>\$0</u>	<u>\$108,196</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$1,683,188)</u>	<u>\$0</u>	<u>\$108,196</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to or below zero. The extra amount in the textbook set-aside may be used to reduce the set-aside requirements of future years.

Note 21 - State 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 School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster: Food Donation	N/A	10.550	\$	\$54,539	\$	\$54,539
School Breakfast Program	048652-05PU-03/04	10.553	106,474		106,474	
National School Lunch Program	048652-LLP4-03/04	10.555	350,184		350,184	
Total United States Department of Agriculture - Nutrition Cluster			<u>456,658</u>	<u>54,539</u>	<u>456,658</u>	<u>54,539</u>
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed Through Ohio Emergency Agency:</i>						
Public Assistance Grants	FEMA-DR1453-OH	97.036	<u>2,992</u>			
Total United States Department of Homeland Security			<u>2,992</u>	<u>0</u>	<u>0</u>	<u>0</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education_State Grant Program	048652-ABS1-03/04	84.002	49,382		49,499	
Title I Grants to Local Educational Agencies	048652-C1S1-03/04	84.010	835,963		946,133	
Special Education_Grants to States	048652-6BSF-03/04	84.027	499,345		554,632	
Vocational Education_Basic Grants to States	20C1-03/04	84.048	67,960		76,287	
Safe and Drug-Free Schools and Communities_ State Grants	048652-DRS1-03/04	84.186	30,767		25,564	
Innovative Education Program Strategies	048652-C2S1-03/04	84.298	17,051		10,685	
Education Technology State Grants	048652-TJS1-03/04	84.318	32,032		27,119	
Rural Education	048652-RUS1-03/04	84.358	15,149		24,121	
Improving Teacher Quality State Grants	048652-TRS1-03/04	84.367	<u>316,858</u>		<u>252,583</u>	
Total United States Department of Education			<u>1,864,507</u>	<u>0</u>	<u>1,966,623</u>	<u>0</u>
UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program		93.778	<u>67,220</u>		<u>67,220</u>	
Total United States Department of Job and Family Services			<u>67,220</u>	<u>0</u>	<u>67,220</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$2,391,377</u>	<u>\$54,539</u>	<u>\$2,490,501</u>	<u>\$54,539</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfer due to ODE administrative action:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.010	048652-C1S1-2003		\$53,476
84.010	048652-C1S1-2004	\$53,476	
84.358	048652-RUS1-2003		11,259
84.358	048652-RUS1 -2004	11,259	
84.367	048652-TRS1-2003		<u>6,413</u>
84.367	048652-TRS1 -2004	<u>6,413</u>	
Total		<u>\$71,148</u>	<u>\$71,148</u>

NOTE D – U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the School District previously received from other Federal agencies. The accompanying Schedule of Federal Awards Receipts and Expenditures reports all such 2004 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirements of these programs has not changed. In 2003 the School District received a Public Assistance Grant, CFDA # 83.544, from the Federal Emergency Management Agency. This Grant is reported in 2004 as Public Assistance Grant, CFDA# 97.036, from the U.S. Department of Homeland Security.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

Switzerland of Ohio Local School District
Monroe County
304 Mill Street
Woodsfield, Ohio 43793

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Switzerland of Ohio Local School District, Monroe County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to opine 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 reportable 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 material to the financial statements we audited may occur and not be timely detected by employees when 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. In a separate letter to the School District's management dated January 31, 2005, we reported an other matter involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated January 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Switzerland of Ohio Local School District
Monroe County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 31, 2005



Auditor of State Betty Montgomery

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

Switzerland of Ohio Local School District
Monroe County
304 Mill Street
Woodsfield, Ohio 43793

To the Board of Education:

Compliance

We have audited the compliance of the Switzerland of Ohio Local School District, Monroe County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

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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.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 31, 2005

**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315(b)
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	No	Partially corrected; The noncompliance citation is reissued within the management letter.



**Auditor of State
Betty Montgomery**

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**SWITZERLAND OF OHIO LOCAL SCHOOL DISTRICT
MONROE 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
MARCH 29, 2005**