

South Point Local School District

Lawrence County

Single Audit

July 1, 2004 Through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-4131, www.bhscpas.com



**Auditor of State
Betty Montgomery**

Board of Trustees
South Point Local School District
203 Park Avenue
South Point, Ohio 45680

We have reviewed the *Independent Auditor's Report* of the South Point Local School District, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 22, 2006

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South Point Local School District

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BALESTRA, HARR & SCHERER, CPAS, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
South Point Local School District
203 Park Avenue
South Point, Ohio 45680

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Point Local School District (the District), Lawrence County, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

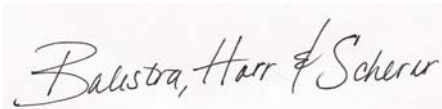
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No.3*, Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liability by Cost Sharing Employees*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

June 15, 2006

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

The discussion and analysis of the South Point Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- Net assets of governmental activities increased \$31,042,819. The primary reasons for the increase are due to increased cash generated by additional tax and intergovernmental revenue received during 2005. The fiscal health of the School District is very dependent upon the level of funding of the State School Foundation and the prudent fiscal management policies as set by the Board of Education.
- General revenues accounted for \$41,409,050 in revenue or 91% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$3,942,302 or 9% of total revenues of \$45,351,352.
- The School District had \$14,308,533 in expenses related to governmental activities; \$3,942,302 of these expenses was offset by program specific charges for services, grants, and contributions. General Revenues were adequate to cover the remaining program expenses.
- The School District has two major funds; the General Fund and the Classroom Facilities Capital Project Fund. All governmental funds had total revenues and other financing sources of \$27,068,684 and expenditures and other financing uses of \$26,809,761. The most significant change in fund balance is in the School District's General fund. The fund balance increase of \$2,633,683 was due primarily to an increase in tax and intergovernmental revenue.

USING THIS ANNUAL FINANCIAL REPORT

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

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

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund.

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

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Fiduciary Funds The School District's fiduciary funds are agency funds. All of the School District's fiduciary funds are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004*
Assets		
Current and Other Assets	\$21,142,751	\$20,456,334
Capital Assets	6,283,348	4,617,341
Total Assets	<u>27,426,099</u>	<u>25,073,675</u>
Liabilities		
Long-term Liabilities	12,402,914	12,345,268
Other Liabilities	5,240,809	4,883,204
Total Liabilities	<u>17,643,723</u>	<u>17,228,472</u>
Net Assets		
Invested in Capital Assets, Net of Debt	3,862,090	4,422,341
Restricted	31,370,976	2,965,670
Unrestricted	3,654,956	457,192
Total Net Assets	<u>\$38,888,022</u>	<u>\$7,845,203</u>

The increase in current and other assets is due to increases in cash and property taxes receivable. Capital assets increased by \$686,417 due to the purchase of land and the initiation of the classroom facilities building project, which are partially offset by depreciation expense. The increase in deferred revenue related to an increase in taxes receivable was the primary reason for the increase in liabilities in the amount of \$415,251.

* - Net assets of Governmental Activities were restated for June 30, 2004 due to the correction of accounting errors made in the prior year. See Note 3 for further detail of the restatement.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005 as compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004*
Revenues		
Program Revenues		
Charges for Services and Sales	\$361,078	\$393,864
Operating Grants and Contributions	3,581,224	3,423,870
Total Program Revenues	3,942,302	3,817,734
General Revenues		
Property Taxes	3,190,536	2,806,301
Grants and Entitlements	37,692,290	8,074,496
Investment Earnings	377,820	71,718
Miscellaneous	148,404	285,877
Total General Revenues	41,409,050	11,238,392
Total Revenues	45,351,352	15,056,126
Program Expenses		
Instruction:		
Regular	6,514,030	5,853,025
Special	1,522,563	1,635,381
Vocational	112	0
Other	104,164	48,803
Support Services:		
Pupil	491,386	479,666
Instructional Staff	587,211	585,273
Board of Education	39,402	37,291
Administration	1,747,559	1,810,140
Fiscal	349,533	243,821
Operation and Maintenance of Plant	993,549	998,006
Pupil Transportation	690,092	762,689
Central	53,771	48,784
Operation of Non-Instructional Services	586,080	579,358
Extracurricular Activities	240,852	232,622
Interest and Fiscal Charges	388,229	68,345
Total Expenses	14,308,533	13,383,204
Increase in Net Assets	31,042,819	1,672,922
Net Assets at Beginning of Year	7,845,203	6,172,281
Net Assets at End of Year	\$38,888,022	\$7,845,203

* - Net assets of Governmental Activities were restated for June 30, 2004 due to the correction of accounting errors made in the prior year. See Note 3 for further detail of the restatement.

The grants and entitlements increased due to the \$29 million additional grant monies from the Ohio School Facilities Commission for the classroom facilities project.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Governmental Activities

Charges for services and sales comprised 1 percent of revenue for governmental activities, while operating grants and contributions comprised 8 percent of revenue for governmental activities of the School District for fiscal year 2005. Property tax revenue comprised 7 percent of revenue for governmental activities for fiscal year 2005. Grants and Entitlements comprised 83 percent of revenue for governmental activities.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 46 percent of governmental program expenses.

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

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Program Expenses				
Instruction:				
Regular	\$6,514,030	\$5,336,962	\$5,853,025	\$4,600,837
Special	1,522,563	188,542	1,635,381	300,017
Vocational	112	112	0	0
Other	104,164	103,781	48,803	40,201
Support Services:				
Pupil	491,386	443,723	479,666	468,807
Instructional Staff	587,211	431,169	585,273	393,455
Board of Education	39,402	39,257	37,291	36,853
Administration	1,747,559	1,671,362	1,810,140	1,758,324
Fiscal	349,533	348,085	243,821	241,193
Operation and Maintenance of Plant	993,549	970,214	998,006	960,801
Pupil Transportation	690,092	348,715	762,689	419,896
Central	53,771	47,396	48,784	48,237
Operation of Non-Instructional Services:				
Extracurricular Activities	240,852	116,232	232,622	179,057
Interest and Fiscal Charges	388,229	370,581	68,345	55,472
Total	\$14,308,533	\$10,366,231	\$13,383,204	\$9,565,470

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 69% of instruction activities are supported through taxes and intergovernmental revenues.

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

THE SCHOOL DISTRICT FUNDS

The School District's funds are accounted for using the modified accrual basis of accounting. The General Fund had \$13,059,024 in revenues and \$10,425,341 in expenditures and other financing uses. The General Fund's balance increased \$2,633,683 due to tax and intergovernmental revenue increases during 2005. The Classroom Facilities had revenues and other financing sources of \$10,944,512 and expenditures of \$12,625,048. The fund's balance decreased \$1,680,536 due to the construction of school facilities.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District amended its General Fund Budget, but not significantly.

For the General Fund, budget basis revenue was \$727,995 below final estimates of \$13,737,983. Budget basis expenditures were \$4,212,698 above final estimates of \$14,932,301. Expenditures were less than originally anticipated.

The School District's ending unobligated General Fund balance was \$7,301,783.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$6,283,348 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$1,946,077	\$484,300
Construction in Progress	508,597	0
Land Improvements	43,951	48,435
Buildings and Improvements	3,318,807	3,558,413
Furniture and Equipment	228,907	243,747
Vehicles	237,009	282,446
Totals	<u>\$6,283,348</u>	<u>\$4,617,341</u>

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

South Point Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Debt

At June 30, 2005, the School District had \$10,710,970 in outstanding general obligation bonds. For additional information on debt, see note 13 to the basic financial statements.

ECONOMIC FACTORS

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

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

South Point Local School District, Ohio

Statement of Net Assets

As of June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$15,907,317
Cash and Cash Equivalents with Fiscal Agents	10,431
Restricted Cash and Cash Equivalents	1,009,728
Intergovernmental Receivable	29,305,709
Property Taxes Receivable	3,831,238
Unamortized Financing Costs	183,974
Nondepreciable Capital Assets	2,454,674
Depreciable Capital Assets, Net	<u>3,828,674</u>
 <i>Total Assets</i>	 <u>56,531,745</u>
Liabilities	
Accounts Payable	98,896
Accrued Wages and Benefits Payable	1,443,059
Intergovernmental Payable	422,383
Matured Bonds Payable	10,000
Matured Interest Payable	431
Accrued Interest Payable	9,488
Deferred Revenue	3,256,552
Long-Term Liabilities:	
Due Within One Year	272,237
Due In More Than One Year	<u>12,130,677</u>
 <i>Total Liabilities</i>	 <u>17,643,723</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,862,090
Restricted for:	
Capital Outlay	29,878,060
Other Purposes	549,142
Set-Asides	1,009,728
Unrestricted	<u>3,589,002</u>
 <i>Total Net Assets</i>	 <u>\$38,888,022</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services & Sales</u>	<u>Operating Grants and and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$6,514,030	\$47,229	\$1,129,839	(\$5,336,962)
Special	1,522,563	19,383	1,314,638	(188,542)
Vocational	112	0	0	(112)
Other	104,164	383	0	(103,781)
Support Services:				
Pupil	491,386	2,774	44,889	(443,723)
Instructional Staff	587,211	5,397	150,645	(431,169)
Board of Education	39,402	145	0	(39,257)
Administration	1,747,559	7,857	68,340	(1,671,362)
Fiscal	349,533	1,290	158	(348,085)
Operation and Maintenance of Plant	993,549	3,961	19,374	(970,214)
Pupil Transportation	690,092	2,374	339,003	(348,715)
Central	53,771	328	6,047	(47,396)
Operation of Non-Instructional				
Services	586,080	193,533	442,447	49,900
Extracurricular Activities	240,852	76,424	48,196	(116,232)
Interest and Fiscal Charges	388,229	0	17,648	(370,581)
Totals	<u>\$14,308,533</u>	<u>\$361,078</u>	<u>\$3,581,224</u>	<u>(10,366,231)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				3,190,536
Grants and Entitlements not Restricted to Specific Programs				8,586,644
Grants and Entitlements Restricted for Classroom Facilities				29,105,646
Investment Earnings				377,820
Miscellaneous				148,404
Total General Revenues				<u>41,409,050</u>
Change in Net Assets				31,042,819
Net Assets Beginning of Year - See Note 3				<u>7,845,203</u>
Net Assets End of Year				<u>\$38,888,022</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio

Balance Sheet

Governmental Funds

As of June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,052,571	\$8,653,760	\$1,200,986	\$15,907,317
Cash and Cash Equivalents with Fiscal Agents	0	0	10,431	10,431
Receivables:				
Property Taxes	3,831,238	0	0	3,831,238
Interfund Receivable	616,100	0	0	616,100
Intergovernmental	0	29,105,646	200,063	29,305,709
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,009,728	0	0	1,009,728
<i>Total Assets</i>	<u>\$11,509,637</u>	<u>\$37,759,406</u>	<u>\$1,411,480</u>	<u>\$50,680,523</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$7,998	\$0	\$90,898	\$98,896
Accrued Wages and Benefits Payable	1,029,305	0	413,754	1,443,059
Interfund Payable	0	0	616,100	616,100
Intergovernmental Payable	338,613	0	83,770	422,383
Matured Bonds Payable	0	0	10,000	10,000
Matured Interest Payable	0	0	431	431
Deferred Revenue	3,784,999	29,105,646	199,172	33,089,817
<i>Total Liabilities</i>	<u>5,160,915</u>	<u>29,105,646</u>	<u>1,414,125</u>	<u>35,680,686</u>
Fund Balances				
Reserved for Encumbrances	180,508	5,000	361,309	546,817
Reserved for Property Taxes	46,239	0	0	46,239
Reserved for Textbooks and Materials	295,201	0	0	295,201
Reserved for Capital Improvements	580,992	0	0	580,992
Reserved for Budget Stabilization	67,581	0	0	67,581
Reserved for Bus Purchases	65,954	0	0	65,954
Unreserved, Undesignated, Reported in:				
General Fund	5,112,247	0	0	5,112,247
Special Revenue Funds	0	0	(157,863)	(157,863)
Debt Service Funds	0	0	(225,501)	(225,501)
Capital Projects Funds	0	8,648,760	19,410	8,668,170
<i>Total Fund Balances</i>	<u>6,348,722</u>	<u>8,653,760</u>	<u>(2,645)</u>	<u>14,999,837</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,509,637</u>	<u>\$37,759,406</u>	<u>\$1,411,480</u>	<u>\$50,680,523</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 As of June 30, 2005*

Total Governmental Fund Balances		\$ 14,999,837
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.		6,283,348
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	528,447	
Intergovernmental	29,304,818	
Unamortized Financing Costs	183,974	
Total		30,017,239
Long-Term Liabilities, including notes, long-term portion of compensated absences and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds.		
Interest Payable	(9,488)	
Compensated Absences	(1,691,944)	
General Obligation Notes	(10,710,970)	
Total		(12,412,402)
Net Assets of Governmental Activities		\$ 38,888,022

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$3,137,629	\$0	\$0	\$3,137,629
Intergovernmental	9,599,472	22,181	2,713,208	12,334,861
Investment Earnings	135,953	241,867	0	377,820
Tuition and Fees	32,890	0	0	32,890
Extracurricular Activities	0	0	141,645	141,645
Charges for Services	4,676	0	181,866	186,542
Miscellaneous	148,404	0	0	148,404
<i>Total Revenues</i>	<u>13,059,024</u>	<u>264,048</u>	<u>3,036,719</u>	<u>16,359,791</u>
Expenditures				
Current:				
Instruction:				
Regular	4,760,818	0	1,492,728	6,253,546
Special	668,111	0	806,521	1,474,632
Vocational	112	0	0	112
Other	104,164	0	0	104,164
Support Services:				
Pupil	428,698	0	59,220	487,918
Instructional Staff	386,649	0	197,852	584,501
Board of Education	39,402	0	0	39,402
Administration	1,612,102	0	90,158	1,702,260
Fiscal	347,290	0	208	347,498
Operation and Maintenance of Plant	953,797	15,134	22,399	991,330
Pupil Transportation	645,666	0	114	645,780
Central	45,330	0	7,978	53,308
Operation of Non-Instructional Services	100	0	580,853	580,953
Extracurricular Activities	171,170	0	63,583	234,753
Capital Outlay	0	1,992,805	0	1,992,805
Debt Service:				
Principal	233,503	10,318,170	195,000	10,746,673
Interest and Fiscal Charges	0	111,494	242,758	354,252
Issuance Costs	0	187,445	0	187,445
<i>Total Expenditures</i>	<u>10,396,912</u>	<u>12,625,048</u>	<u>3,759,372</u>	<u>26,781,332</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,662,112</u>	<u>(12,361,000)</u>	<u>(722,653)</u>	<u>(10,421,541)</u>
Other Financing Sources (Uses)				
Transfers - In	0	0	28,429	28,429
Proceeds from Sale of Notes	0	10,316,336	0	10,316,336
Transfers - Out	(28,429)	0	0	(28,429)
Premium on Debt Issuance	0	364,128	0	364,128
<i>Total Other Financing Sources (Uses)</i>	<u>(28,429)</u>	<u>10,680,464</u>	<u>28,429</u>	<u>10,680,464</u>
<i>Net Change in Fund Balances</i>	2,633,683	(1,680,536)	(694,224)	258,923
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,715,039</u>	<u>10,334,296</u>	<u>691,579</u>	<u>14,740,914</u>
<i>Fund Balances End of Year</i>	<u>\$6,348,722</u>	<u>\$8,653,760</u>	<u>(\$2,645)</u>	<u>\$14,999,837</u>

See accompanying notes to the basic financial statements

South Point Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds	\$	258,923
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 capital outlay exceeded depreciation in the current period.		
Fixed Asset Additions	1,992,805	
Current Year Depreciation	<u>(326,798)</u>	
Total		1,666,007
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	52,907	
Intergovernmental	<u>28,938,654</u>	
Total		28,991,561
Repayment of bond and note principal is recorded as expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		10,746,673
Proceeds and premiums from the sale of notes in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.		
		(10,680,464)
Debt issuance costs reported in the statement of revenues, expenditures, and changes in fund balances that are reported as expenditures are not reported as expenses in the statement of activities.		
		187,445
In the statement of activities, interest is accrued on outstanding bonds and long-term notes payable, whereas in governmental funds, interest expenditures are reported when due.		
		(33,977)
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	<u>(93,349)</u>	
Total		<u>(93,349)</u>
Net Change in Net Assets of Governmental Activities	\$	<u>31,042,819</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
(Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget: Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Revenues and Other Sources	\$ 13,737,983	\$ 13,767,197	\$ 13,039,202	\$ (727,995)
Total Expenditures and Other Uses	<u>14,932,301</u>	<u>14,932,301</u>	<u>10,719,603</u>	<u>4,212,698</u>
Net Change in Fund Balance	(1,194,318)	(1,165,104)	2,319,599	3,484,703
Fund Balance, July 1, 2004	4,795,565	4,795,565	4,795,565	-
Prior Year Encumbrances Appropriated	<u>186,619</u>	<u>186,619</u>	<u>186,619</u>	<u>-</u>
Fund Balance, June 30, 2005	<u>\$ 3,787,866</u>	<u>\$ 3,817,080</u>	<u>\$ 7,301,783</u>	<u>\$ 3,484,703</u>

See accompanying notes to the basic financial statements

South Point Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$17,310</u>
Liabilities	
Due to Students	<u>17,310</u>
Total Liabilities	<u>\$17,310</u>

See accompanying notes to the basic financial statements

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's five instructional/support facilities staffed by 85 classified employees, 120 certified teaching personnel, and 11 administrators, who provide services to 1,997 students and other community members.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. There are two categories of funds for this School District: governmental and fiduciary.

Governmental Funds

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Classroom Facilities - The Classroom Facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds which are used to account for student managed activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

Basis of Presentation

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

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

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

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

Measurement Focus

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirement. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

Encumbrances

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

Cash, Cash Equivalents, and Investments

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

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

During fiscal year 2005, investments were limited to certificates of deposit and repurchase agreements, which are reported at cost.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

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 2005 amounted to \$135,953. Interest revenue credited to the Classroom Facilities Fund during fiscal year 2005 amounted to \$241,867.

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

Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$5,000. The School District does not possess any infrastructure.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 years
Buildings and Improvements	10-50 years
Furniture and Equipment	5-20 years
Vehicles	7-15 years

Interfund Balances

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

Compensated Absences

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

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

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Accrued Liabilities and Long-term Obligations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The restrictions for other purposes is comprised of net assets restricted for grants as well as textbooks and materials, capital improvements, and budget stabilization reserves required in the General Fund by law.

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District for the purchase of textbooks and instructional materials and for the acquisition or construction of capital improvements, budget stabilization, and bus purchases. See Note 16 for additional information regarding set-asides.

Fund Balance Reserves

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

Interfund Transactions

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

Estimates

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

Note 3 – Changes in Accounting Principal and Restatement of Prior Year Balances

For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures”, GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefits Expenditures/Expenses and Liabilities by Cost Sharing Employers”, and GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”.

GASB Statement No. 40 modifies the disclosure requirements for deposit and investment risks.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

Cash for the General Fund was restated to correct fund cash balance per reconciliation performed by the Auditor of State for the School District.

	General	Classroom Facilities	Non - Major	Total
Fund Balances, June 30, 2004	3,742,013	10,334,296	691,579	14,767,888
To correct fund cash balance	(26,974)	0	0	(26,974)
Restated Fund Balances, June 30, 2004	3,715,039	10,334,296	691,579	14,740,914
Net Assets, June 30, 2004				7,872,177
To correct fund cash balance				(26,974)
Restated Net Assets, June 30, 2004				7,845,203

Note 4 - Budgetary Basis of Accounting

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

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4 – Budgetary Basis of Accounting (Continued)

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

Net Change in Fund Balance	
GAAP Basis	\$2,633,683
Revenue Accruals	(19,822)
Expenditure Accrual	(113,550)
Encumbrances	<u>(180,712)</u>
Budget Basis	<u><u>\$2,319,599</u></u>

Note 5 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 5 – Deposits and Investments (Continued)

6. 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;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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.

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.

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

Deposits The School District's deposits are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year end, the carrying amount of the School District's deposits was \$11,937,182 and the bank balance was \$11,852,510. Of the bank balance:

1. \$100,000 was covered by federal depository insurance (Category 1); and
2. \$11,752,510 was uninsured and uncollateralized (Category 3) and exposed to custodial credit risk. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 5 – Deposits and Investments (Continued)

Investments At June 30, 2005, the District’s investment balance was as follows:

	Category 3	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$5,007,604	Less than 1 year

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to repurchase agreements.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District does not have an investment policy which allows only investments in STAR Ohio and Certificates of Deposit. The District has 100% invested in repurchase agreements.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name.

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$ 16,944,786	\$ -
Repurchase Agreements	(5,007,604)	5,007,604
GASB Statement 3	\$ 11,937,182	\$ 5,007,604

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax payments received during calendar 2005 for tangible personal property (other than public utility property) are for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2005 real property taxes are collected in and intended to finance fiscal year 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$121,433,886	84%	\$138,405,370	87%
Public Utility Personal	12,238,920	8%	9,441,590	6%
Tangible Personal Property	12,181,300	8%	11,472,030	7%
Total	\$145,854,106	100%	\$159,318,990	100%
 Tax Rate per \$1,000 of assessed valuation	 \$20.90		 \$20.90	

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

The School District receives property taxes from Lawrence County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 – Property Taxes (Continued)

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations.

The amount available as an advance at June 30, 2005, was \$46,239 and is recognized as revenue in the General Fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

Note 7 - Receivables

Receivables at June 30, 2005, consisted of property taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Classroom Facilities Fund	\$ 29,105,646
<i>Non-major Special Revenue Funds:</i>	
Ohio Reads	891
Chapter I	7,343
High School That Works	820
Title VI-B	177,404
Chapter II	1,239
Drug Free Grant	12,366
Total Non-major Special Revenue Funds	200,063
Total Governmental Activities	\$ 29,305,709

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$ 484,300	\$ 1,461,777	\$ -	\$ 1,946,077
Construction in Progress	-	508,597	-	508,597
Total Capital Assets not being Depreciated	484,300	1,970,374	-	2,454,674
Depreciable Capital Assets:				
Land Improvements	556,305	-	-	556,305
Buildings and Improvements	9,305,027	-	-	9,305,027
Furniture and Equipment	790,802	22,431	-	813,233
Vehicles	1,007,700	-	-	1,007,700
Total Capital Assets being Depreciated	11,659,834	22,431	-	11,682,265
Less Accumulated Depreciation				
Land Improvements	(507,870)	(4,484)	-	(512,354)
Buildings and Improvements	(5,746,614)	(239,606)	-	(5,986,220)
Furniture and Equipment	(547,055)	(37,271)	-	(584,326)
Vehicles	(725,254)	(45,437)	-	(770,691)
Total Accumulated Depreciation	(7,526,793)	(326,798)	-	(7,853,591)
Total Capital Assets being Depreciated, Net	4,133,041	(304,367)	-	3,828,674
Capital Assets, Net	\$ 4,617,341	\$ 1,666,007	\$ -	\$ 6,283,348

- Of the Total Capital Assets being depreciated, \$3,174,126 was fully depreciated at 6/30/05.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$257,837
Support Services:	
Instructional Staff	1,077
Administration	12,472
Operation & Maintenance of Plant	1,600
Pupil Transportation	45,437
Operation of Non-Instructional Services:	
Food Service Operations	2,276
Extracurricular Activities	6,099
Total Depreciation Expense	\$326,798

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 9 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with Indiana Insurance, a Member of Liberty Mutual Group, for property insurance and the Ohio School Plan for general liability insurance.

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

Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Employee Medical Benefits

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

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn eleven to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time.

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 10 – Employee Benefits (Continued)

B. Insurance

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

The School District has contracted with Medical Mutual of Ohio for medical benefits and Medical Benefits for dental and vision benefits. The employees share the cost of the monthly premium with the Board. For fiscal year 2005, the School District's and the employees' premiums are listed below:

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

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 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 2005, 10.57 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, 2005, 2004, and 2003 were \$263,354, \$204,167, and \$164,520 respectively; 49 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$135,621 represents the unpaid contribution for fiscal year 2005 and is reported as a liability within the respective funds.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 11 - Defined Benefit Pension Plans (Continued)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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 designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 11 - Defined Benefit Pension Plans (Continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$836,309, \$844,209, and \$786,872 respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$131,597 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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, 2005, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$62,560 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve 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 \$268,793,000, and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 12 - Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. 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 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$132,736.

Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants eligible to receive health care benefits.

Note 13 - Long Term Obligations

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

	Principal Outstanding 6/30/04	Additions	Reductions	Principal Outstanding 6/30/05	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
1982 School Building, 11.125%	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
Bond Anticipation Notes, 2.000%	10,318,170	-	10,318,170	-	-
Bond Anticipation Notes, 2.500%	-	10,318,170	10,318,170	-	-
General Obligation Bonds:					
School Improvement Bonds	-	10,717,713	6,743	10,710,970	175,000
Compensated Absences	1,598,595	1,691,944	1,598,595	1,691,944	97,237
Claims Servicing Pool Debt 0%	233,503	-	233,503	-	-
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 12,345,268</u>	<u>\$ 22,727,827</u>	<u>\$ 22,670,181</u>	<u>\$ 12,402,914</u>	<u>\$ 272,237</u>

The amortization schedule does not match the outstanding debt amounts listed above due to capital appreciation bonds which are being accreted and the premium on the issuance of debt.

Bond anticipation notes in the amount of \$10,318,170 were issued in October 2004 to pay off bond anticipation notes payable of \$10,318,170 which were issued in May 2004. These notes matured in November 2004 and were repaid from proceeds from School Improvement Unlimited Tax General Obligation Bonds which were issued in 2005.

South Point School Improvement Unlimited Tax General Obligation Bonds - On November 12, 2004, the School District issued \$10,316,336 in voted general obligation bonds for the purpose of constructing a new school building and to renovate existing structures. \$1,975,000 were issued as current interest serial bonds with interest rates ranging from 2.50% to 3.25%, and maturity dates of December 1 in the years 2006 through 2013. \$7,785,000 are current interest term bonds with interest rates ranging from 4.50% to 5.00%, and maturity dates of December 1, 2024 and 2031. \$556,336 are capital appreciation bonds with maturity dates of December 1, 2013, 2014, 2015, and 2016, with maturity amounts of \$325,000, \$325,000, \$325,000 and \$325,000 respectively. The additions in school improvement bonds include a premium of \$364,128 which will be amortized over the life of the bonds. The additions also include the accretion of capital appreciation bonds for \$37,249 in fiscal year 2005 for a total outstanding bond value of \$10,353,585. The bonds were issued for a twenty-five year period. The bond value at final maturity will be \$10,316,336. The bonds will be retired from the debt service fund.

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 13 - Long Term Obligations (Continued)

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

The School District's overall legal debt margin was \$3,597,739, with an unvoted debt margin of \$159,319 at June 30, 2005. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 175,000	\$ 441,680	\$ 616,680
2007	210,000	416,038	626,038
2008	225,000	411,838	636,838
2009	240,000	407,000	647,000
2010	255,000	401,240	656,240
2011-2015	1,170,515	2,240,871	3,411,386
2016-2020	1,325,821	2,187,429	3,513,250
2021-2025	2,245,000	1,355,250	3,600,250
2026-2030	3,010,000	751,500	3,761,500
2031-2032	1,460,000	99,000	1,559,000
Total	<u>\$ 10,316,336</u>	<u>\$ 8,711,846</u>	<u>\$ 19,028,182</u>

Note 14 - Jointly Governed Organizations

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

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. South Point Local School District paid \$79,043 for all services provided during fiscal year 2005. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

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

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 15 - Claims Servicing and Insurance Purchasing Pools

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

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

Note 16 - Set asides

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

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Bus Purchases</u>
Set-aside Reserve Balance, June 30, 2004	\$350,550	\$416,467	\$67,581	\$65,954
Current Year Set-aside Requirement	268,390	268,390	0	0
Qualifying Disbursements	<u>(323,739)</u>	<u>(103,865)</u>	<u>0</u>	<u>0</u>
Total Set-aside Balance Carried Forward to Future Fiscal Years	<u>295,201</u>	<u>580,992</u>	<u>67,581</u>	<u>65,954</u>
Set-aside Reserve Balance June 30, 2005	<u><u>\$295,201</u></u>	<u><u>\$580,992</u></u>	<u><u>\$67,581</u></u>	<u><u>\$65,954</u></u>

Note 17 – State School Funding Decision

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

South Point Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is currently party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Note 19 – Compliance

Accountability - Fund Equity Deficits

At June 30, 2005, the ADA Grant and Video Distance Learn Capital Projects Funds, the Bond Retirement Debt Service Fund, and Food Service, Gifted Education, Data Communications, Ohio Reads, Chapter I, Chapter II, and Title VI-R Special Revenue Funds had fund balance deficits of \$168, \$14,302, \$225,501, \$22,995, \$521, \$5,166, \$9,023 \$319,334, \$3,043, and \$61,986, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 20 – Interfund Activity

Transfers made during the year ended June 30, 2005, were as follows:

Fund	Transfer From	Transfer To
Major Fund:		
General	\$ 28,429	\$ -
Other governmental funds	-	28,429
Total	\$ 28,429	\$ 28,429

The transfers were made from the General Fund (a major fund) to the other governmental funds to provide support for operating activities of that fund.

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2006 fiscal year:

Interfund Loans	Receivable	Payable
General Fund	\$ 616,100	\$ -
Other governmental funds	-	616,100
Total Interfund Receivables/Payables	\$ 616,100	\$ 616,100

The General Fund periodically provides advances to grant funds to provide temporary resources to such funds until grant monies are received at which time the advances are repaid.

South Point Local School District
Lawrence County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	NA	10.550	\$0	\$75,770	\$0	\$75,770
National School Breakfast Program	05PU	10.553	123,902	0	123,902	0
National School Lunch Program	LLP4	10.555	302,972	0	302,972	0
Total United States Department of Agriculture - Nutrition Cluster			426,874	75,770	426,874	75,770
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education Grants to States	6BSF	84.027	465,455	0	312,386	0
Title I Grants to Local Education Agencies	C1S1	84.010	637,861	0	680,079	0
Safe & Drug Free Schools State Grants	DRS1	84.186	18,235	0	13,479	0
School Grants for Innovative Programs	C2S1	84.298	18,903	0	11,678	0
Education Technology State Grants	TJS1	84.318	26,744	0	32,597	0
Improving Teacher Quality State Grants	TRS1	84.367	294,856	0	145,380	0
Total United States Department of Education			1,462,054	0	1,195,599	0
Total Federal Financial Assistance			<u>\$1,888,928</u>	<u>\$75,770</u>	<u>\$1,622,473</u>	<u>\$75,770</u>

See Notes to the Schedule of Federal Awards Expenditures.

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the 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.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board
South Point Local School District
203 Park Avenue
South Point, Ohio 45680

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, which collectively comprise the financial statements of the South Point Local School District, Lawrence County, Ohio (the District), as of and for the year ended June 30, 2005 and have issued our report thereon dated June 15, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 40 and 46, and GASB Technical Bulletin No. 2004-002. 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 District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal controls over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-005 and 2005-006.

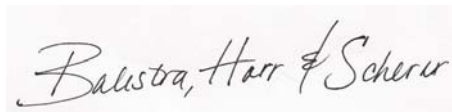
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider reportable conditions 2005-005 and 2005-006 listed above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-001 through 2005-004.

We noted certain matters that we have reported to the School District's management in a separate letter dated June 15, 2006.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

June 15, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

To the Board of Education:

Compliance

We have audited the compliance of the South Point Local School District (the 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, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in items 2005-007 through 2005-008 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding cash management and reporting of federal funds that are applicable to its Title I Grants to Local Education Agencies (CFDA #84.010) and Idea B Special Education Grants to States (CFDA #84.027). Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to those programs.


In our opinion, because of those instances of noncompliance referred to in the preceding paragraph, the District did not comply, in all material respects, with the requirements referred to above that are applicable to each of its Title I Grants to Local Education Agencies (CFDA #84.010) and Idea B Special Education Grants to States (CFDA #84.027) major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Balestra, Harr & Scherer, CPAs, Inc.
June 15, 2006

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, Grants to Local Agencies, CFDA#84.010 & Special Education Grants to States, CFDA#84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

Interest earnings were not allocated to the Food Service Fund for fiscal year 2005. Interest earnings not credited to the Food Service Fund from July 1, 2004 through June 30, 2005 amount to \$213.

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

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio rev. Code Section 3317.022(C)(5) indicates that Schools must spend their special education weighted funding from the State on special education related activities. The legislation requires the Ohio Department of Education (the Department) to accumulate financial data from each School District summarizing special education receipts and disbursements. The Department is annually required to report districts that have not met the spending goals to the Ohio Legislature. For the year ended June 30, 2005, the Department reported that the School District spent \$273,448 less than it received for special education.

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

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

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that money that is paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

Negative balances were noted in the Title I Fund at March 31, 2005 and June 30, 2005.

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

**FINDING NUMBER 2005-003
(Continued)**

Noncompliance Citation (Continued)

We recommend the School District Treasurer review fund balances to ensure that money from one fund is not being used to cover the expenses from another fund. If it is determined that a fund has a negative fund balance or will certainly incur a negative fund balance in the future, we further recommend the School District Treasurer obtain Board of Education approval of an advance from the General Fund to cover the negative balances if such an advance would be appropriate. The School District should review Auditor of State Bulletin 1997-003 for further guidance on advances. The School District Treasurer should also submit cash requests for federal grants on a timely basis to avoid having to utilize General Fund monies for grant activities.

FINDING NUMBER 2005-004

Noncompliance Citation

Ohio Rev. Code Sections 5705.14, 5705.15, & 5705.16 requires that no transfer can be made from one fund of a subdivision to any other fund, except as follow:

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable.
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any fund of the subdivision with the approval of the court of common pleas of the county in which such subdivision is located.
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such fund existed, but only after the payment of all obligations incurred and payable from such special fund.
- Money may be transferred for the general fund to any other fund of the subdivision by resolution of the taxing authority.

During testing of School District transfers, we noted on several occasion, that transfers were made from a special revenue funds to the general fund, which did not meet one of the allowed exceptions. Also transfers were not properly approved by the Board of Education.

We recommend the District review all transfers for legality and properly approve them by resolution.

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

FINDING NUMBER 2005-005

Material Weakness- Financial Monitoring

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

This information can help answer questions such as the following:

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

In addition, there was no documentation in the minute record that the Board of Education reviewed the audit report for fiscal year 2003. The Board of Education should take a more active role in meeting with the independent auditors before and after each audit to evaluate the results of the financial and compliance audit to ensure that the internal control and legal compliance issues are promptly and effectively remedied.

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

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

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

FINDING NUMBER 2005-006

Material Weakness – Monthly Bank Reconciliations

Accurate monthly reconciliations of the ending bank account balance to the School District's ending book balance were not performed during the audit period by the School District Treasurer. While reviewing the reconciliation performed by the Auditor of State, we note that code corrections were posted by the School District Treasurer to various accounts during fiscal year 2005. Code corrections were posted as reductions to expenditures to one account and posted as expenditures to another account for which supporting documentation was not maintained by the School District Treasurer. Many of these code corrections were the result of the School District maintaining numerous special cost centers within a fund.

This resulted in misrepresented financial statements, inaccurate book balances and cumbersome reconciliation procedures. 65 reconciling items were required to bring the financial statements into balance. The School District's financial statements were out of balance by a net amount of \$11,162. In addition, checks were outstanding for longer than six months in the School District's general operating account outstanding check list.

As a result, we make the following recommendations:

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

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2005-007
CFDA Title and Number	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
Federal Award Number/Year	C1S1 – 04/05, 6BSF – 04/05
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting

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

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

- Project Cash Request (PCR)
- Final Expenditure Report (FER)

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

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

The Final Expenditure Reports submitted for Title I for grant year 05 were made to reflect what the budgeted figures were. Below is a comparison of the reported figures and actual figures for the 2005 grant year final expenditure report.

Grant	Fund and Object Level	Expenditures per FER	Expenditures per system	Variance
Title I	572-100	\$ 417,553	\$ 461,610	\$ (44,058)
Title I	572-200	\$ 96,986	\$ 111,908	\$ (14,922)
Title I	572-400	\$ 16,208	\$ 17,970	\$ (1,762)
Title I	572-500	\$ 28,774	\$ 31,578	\$ (2,804)
Title I	572-600	\$ 7,241	\$ 7,053	\$ 188
			Total Title I	\$ (63,357)

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

Finding Number	2005-007 (Continued)
CFDA Title and Number	Title I Grants to Local Education Agencies (Title I) 84.010, Special Education Grants to States (Idea B) 84.027
Federal Award Number/Year	C1S1 – 03/04, 6BSF – 04/05
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting (Continued)

The Final Expenditure Reports Submitted for Idea B for grant year 05 were made to reflect what the budgeted figures were. Below is a comparison of the reported figures and actual figures for the 2005 grant year final expenditure report.

Grant	Fund and Object Level	Expenditures per FER	Expenditures per system	Variance
Idea B	516-100	\$ 152,979	\$ 148,643	\$ 4,336
Idea B	516-200	\$ 52,251	\$ 50,372	\$ 1,879
Idea B	516-400	\$ 149,289	\$ 41,581	\$ 107,708
Idea B	516-500	\$ 47,715	\$ 61,891	\$ (14,176)
Idea B	516-600	\$ 39,057	\$ 9,900	\$ 29,157
			Total Idea B	\$ 128,904

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

We recommend the School District report to the Ohio Department of Education only those expenditures that can be supported with the School District's accounting system. We would further recommend that the School District contact the Ohio Department of Education and submit an amended Final Expenditure Report for the 2004 grants.

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

Finding Number	2005-008
CFDA Title and Number	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
Federal Award Number/Year	C1S1 – 04/05, 6BSF – 04/05
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Cash Management

34 CFR 80.21 states, in pertinent part:

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

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

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

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

They did not properly utilize their cost centers and due to that, they accumulated cash balances in old cost centers. A cost center is a sub-account within a fund which is utilized to track grants separately based on the fiscal year of the grant. Below is a listing of cost centers that, based on the year of the grant and their final expenditure reports, should not have had balances remaining as of June 30, 2005.

Fund - Cost Center	Description of the Grant/Fund	Fund Cash Balance as of June 30, 2005
572-9003	Title I - Fiscal Year 2003	(\$175,671)
572-9005	Title I - Fiscal Year 2005	(\$8,110)
Total		(\$183,781)

Fund - Cost Center	Description of the Grant/Fund	Fund Cash Balance as of June 30, 2005
516-9001	Idea B - Fiscal Year 2001	(\$30,588)
Total		(\$30,588)

SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY
JUNE 30, 2005

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

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

Finding Number	2005-008 (Continued)
CFDA Title and Number	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
Federal Award Number/Year	C1S1 – 04/05, 6BSF – 04/05
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Cash Management (Continued)

Based on the fact that these fund balances should not be in existence as of June 30, 2005 according to their grant years and final expenditure reports, we will issue the total of \$(214,369) as a questioned cost.

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

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

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

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §315(b)
FOR THE YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Noncompliance Citation – Food Service Interest	No	Reissued as finding number 2005-001
2004-002	Noncompliance Citation – Special Education Weighted Funding	No	Reissued as finding number 2005-002
2004-003	Noncompliance Citation – Interfund Advances	Yes	
2004-004	Noncompliance Citation – Spending Plan	Yes	
2004-005	Noncompliance Citation – Illegal Transfers	No	Reissued as finding number 2005-004
2004-006	Reportable Condition – Financial Monitoring	No	Reissued as finding number 2005-005
2004-007	Reportable Condition – Bank Reconciliations	No	Reissued as finding number 2005-006
2004-008	Material Weakness – Project Cash Requests and Monitoring of Cash Flows	Yes	
2004-009	Noncompliance Citation – Reporting	No	Reissued as finding number 2005-007
2004-010	Questioned Costs – Title I	Yes	
2004-011	Questioned Costs – Title I Period of Availability	Yes	
2004-012	Material Weakness – Grant Accountability	Yes	
2004-013	Noncompliance Citation – Report Submission	Yes	

**SOUTH POINT LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Planned Corrective Action Plan	Anticipated Completion Date	Responsible Contact Person
2005-001	The Treasurer intends to properly allocate interest into the food service fund.	6/30/06	Dan McDavid, Treasurer
2005-002	The Treasurer intends to review special education spending for miscoding and contact the Ohio Department of Education for additional information.	6/30/06	Dan McDavid, Treasurer
2005-003	The Treasurer intends to review fund balances regularly to make sure they are not negative.	6/30/06	Dan McDavid, Treasurer
2005-004	The Treasurer intends to monitor financial information more closely and make only allowable transfers.	6/30/06	Dan McDavid, Treasurer
2005-005	The Treasurer intends to take a more active role in monitoring the district's financial activities.	6/30/06	Dan McDavid, Treasurer
2005-006	The Treasurer is working with the Auditor of State to reconcile its balances for the upcoming fiscal year and intends to perform accurate and timely reconciliations in subsequent periods.	6/30/06	Dan McDavid, Treasurer
2005-007	The Treasurer intends to use system generated reports to complete the final expenditure reports and maintain reports to support figures.	6/30/06	Dan McDavid, Treasurer
2005-008	The Treasurer intends to monitor grant activity and use separate funds and cost centers to track the revenue and expenditure activity for the grants.	6/30/06	Dan McDavid, Treasurer



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SOUTH POINT LOCAL SCHOOL DISTRICT

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2006**