

South Point Local School District

Lawrence County

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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Mary Taylor, CPA  
Auditor of State

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, 2005 through June 30, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 11, 2007

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**SOUTH POINT LOCAL SCHOOL DISTRICT**  
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Ohio Society of Certified Public Accountants

## Independent Auditor's Report

South Point Local School District  
203 Park Avenue  
South Point, OH 45680

To the Board of Education:

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Point Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management.

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The Ohio Administrative Code 117-2-02(A) requires all public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report all transactions. However, there were several transactions during the audit period that did not follow the guidelines set forth by the Ohio Administrative Code. Furthermore, an accurate reconciliation of the District's cash balance was not provided for the audit.

Because of inadequacies in the District's accounting records, we were unable to form an opinion regarding the amounts recorded as cash receipts, cash disbursements, and fund cash balances in the accompanying financial statements. It was not practical to perform other procedures to obtain the assurance necessary to form an opinion on the basic financial statements.

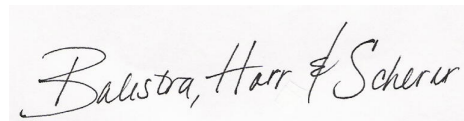
Since cash receipts, cash disbursements, and fund cash balances materially affect the determination of financial position and results of operations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 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 the 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 School District's basic financial statements. The schedule of federal awards receipts and 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. Because of the inadequacies in the District's accounting records described in the third paragraph of this report, we were unable to form an opinion on the schedule of federal awards expenditures in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Additionally, the District changed its basis of presentation to the cash basis presentation which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America as described in Note 2 to the basic financial statements.



Balestra, Harr & Scherer, CPAs, Inc.  
October 5, 2007

# **SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

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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, 2006. 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 2006 are as follows:**

- Net assets of governmental activities increased \$8,099,851.
- General cash receipts accounted for \$23,558,675 in revenue or 87% of all revenues. Program specific cash receipts in the form of charges for services, grants, and contributions accounted for \$3,370,166 or 13% of total cash receipts of \$26,928,841. The School District had \$18,828,990 in cash disbursements related to governmental activities; \$3,370,166 of these cash disbursements was offset by program specific charges for services, grants, and contributions. General cash receipts were adequate to cover the remaining program cash disbursements.
- The School District has two major funds; the General Fund and the Classroom Facilities Capital Projects Fund. All governmental funds had total cash receipts and other financing sources of \$27,342,606 and total cash disbursements and other financing uses of \$19,242,755.

## **USING THE BASIC FINANCIAL STATEMENTS**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the School District's cash basis of accounting.

## **REPORT COMPONENTS**

The *Statement of Net Assets – Cash Basis* and *Statement of Activities – Cash Basis* provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported on the basic financial statements.

## **BASIS OF ACCOUNTING**

The basis of accounting is a set of guidelines that determines when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.



# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

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As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE DISTRICT AS A WHOLE

### *Statement of Net Assets and Statement of Activities*

The statement of net assets and the statement of activities reflect how the School District did financially during 2006, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, the condition of the School District's capital assets and infrastructure, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the School District has one type of activity; governmental.

### *Reporting the School District's Most Significant Funds*

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple number 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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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. Since the School District is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities due to transfers and advances netted on the statement of activities. See Note 2 to the basic financial statements.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

**Fiduciary Funds** All of the School District's fiduciary funds are reported in a separate Statement of Fiduciary Net Assets – Cash Basis. 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 cash basis of accounting.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities.

## 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 2006.

Table 1  
Net Assets - Cash Basis

	Governmental Activities
	<u>2006</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 23,747,201
Cash and Cash Equivalents with Fiscal Agents	10,431
Restricted Cash and Cash Equivalents	<u>1,269,695</u>
Total Assets	<u>25,027,327</u>
<b>Net Assets</b>	
Restricted for:	
Capital Outlay	16,434,055
Debt Service	43,795
Set Asides	1,269,695
Unrestricted	<u>7,279,782</u>
Total Net Assets	<u>\$ 25,027,327</u>

The prior year is not presented due to the School District reporting on a cash basis for the current fiscal year, while the prior year was reported on a basis of accounting in accordance with accounting principles generally accepted in the United States of America. See Note 3 for further details of the restatement.

**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006.

Table 2  
Changes in Net Assets

	Governmental Activities <u>2006</u>
<b>Cash Receipts</b>	
Program Cash Receipts	
Charges for Services and Sales	\$ 315,869
Operating Grants and Contributions	3,054,297
Total Program Cash Receipts	<u>3,370,166</u>
General Cash Receipts	
Property Taxes	3,498,366
Grants and Entitlements not Restricted to Specific Programs	8,531,307
Grants and Entitlements Restricted for Classroom Facilities	10,970,839
Investment Earnings	535,397
Miscellaneous	22,766
Total General Cash Receipts	<u>23,558,675</u>
Total Cash Receipts	<u>26,928,841</u>
<b>Program Disbursements</b>	
Instruction:	
Regular	6,254,810
Special	1,916,190
Other	90,980
Support Services:	
Pupil	550,129
Instructional Staff	598,442
Board of Education	40,184
Administration	1,911,832
Fiscal	400,758
Operation and Maintenance of Plant	1,156,909
Pupil Transportation	719,490
Central	176,846
Operation of Non-Instructional Services	659,530
Extracurricular Activities	223,396
Capital Outlay	3,536,706
Principal	175,000
Interest and Fiscal Charges	417,788
Total Cash Disbursements	<u>18,828,990</u>
Increase in Net Assets	8,099,851
Net Assets at Beginning of Year *	<u>16,927,476</u>
Net Assets at End of Year	<u>\$ 25,027,327</u>

\* As restated. The prior year is not presented due to the School District reporting on a cash basis for the current fiscal year, while the prior year was reported on a basis of accounting in accordance with accounting principles generally accepted in the United States of America. See Note 3 for further details of the restatement.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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**Governmental Activities**

Charges for services and sales comprised 1 percent of revenue for governmental activities, while operating grants and contributions comprised 12 percent of revenue for governmental activities of the School District for fiscal year 2006. Property tax revenue comprised 13 percent of revenue for governmental activities for fiscal year 2006. Grants and Entitlements comprised 72 percent of revenue for governmental activities. It is important to note that grant receipts are significantly higher in 2006 due to the Classroom Facilities construction program.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 33 percent of governmental program cash disbursements. Capital outlay comprises 19 percent of the cash disbursements due to the Classroom Facilities construction program.

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.

Table 3  
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2006	2006
Program Cash Disbursements		
Instruction:		
Regular	\$6,254,810	\$5,224,399
Special	1,916,190	543,451
Other	90,980	82,285
Support Services:		
Pupil	550,129	547,998
Instructional Staff	598,442	484,567
Board of Education	40,184	40,036
Administration	1,911,832	1,832,369
Fiscal	400,758	396,259
Operation and Maintenance of Plant	1,156,909	1,019,380
Pupil Transportation	719,490	382,209
Central	176,846	(79,359)
Operation of Non-Instructional Services	659,530	632,993
Extracurricular Activities	223,396	222,743
Capital Outlay	3,536,706	3,536,706
Principal	175,000	175,000
Interest and Fiscal Charges	417,788	417,788
Total	<u>\$18,828,990</u>	<u>\$15,458,824</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 71% of instruction activities are supported through taxes and intergovernmental revenues.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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**THE SCHOOL DISTRICT FUNDS**

The School District's funds are accounted for using the cash basis of accounting. The General Fund had \$12,667,697 in cash receipts and \$11,088,884 in cash disbursements and other financing uses. The General Fund's balance increased \$1,578,813. The Classroom Facilities had cash receipts of \$11,220,170 and cash disbursements of \$3,577,688. The fund's balance increased \$7,642,482.

***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 2006, the School District failed to prepare and submit to the County Budget Commission permanent appropriation resolutions.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

The School District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The School District had capital outlay disbursements of \$3,536,706 during fiscal year 2006.

***Debt***

Under the cash basis of accounting the School District does not report bonds, long-term or short-term notes or capital leases in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds. At June 30, 2006, the School District had \$9,585,000 in current interest school improvement bonds and \$556,336 in capital appreciation bonds. The School District's overall legal debt margin was \$4,450,681, with an unvoted debt margin of \$160,352 at June 30, 2006. See note 11 to the basic financial statements for additional information about debt.

**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 citizens, 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**

**Lawrence County**

Statement of Net Assets - Cash Basis

June 30, 2006

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 23,747,201
Cash and Cash Equivalents with Fiscal Agents	10,431
Restricted Cash and Cash Equivalents	<u>1,269,695</u>
<i>Total Assets</i>	<u>25,027,327</u>
<b>Net Assets</b>	
Restricted for:	
Capital Outlay	16,434,055
Debt Service	43,795
Set-Asides	1,269,695
Unrestricted	<u>7,279,782</u>
<i>Total Net Assets</i>	<u>\$ 25,027,327</u>

See accompanying notes to the basic financial statements.

**SOUTH POINT LOCAL SCHOOL DISTRICT**

**Lawrence County**

Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2006

	Program Receipts			Net Disbursements and Changes in Net Assets
	Cash Disbursements	Charges for Services & Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 6,254,810	\$ 137,766	\$ 892,645	\$ (5,224,399)
Special	1,916,190	86,690	1,286,049	(543,451)
Other	90,980	1,287	7,408	(82,285)
Support Services:				
Pupil	550,129	2,033	98	(547,998)
Instructional Staff	598,442	14,924	98,951	(484,567)
Board of Education	40,184	148	-	(40,036)
Administration	1,911,832	12,559	66,904	(1,832,369)
Fiscal	400,758	1,463	3,036	(396,259)
Operation and Maintenance of Plant	1,156,909	5,731	131,798	(1,019,380)
Pupil Transportation	719,490	2,809	334,472	(382,209)
Central	176,846	46,634	209,571	79,359
Operation of Non-Instructional				
Services	659,530	3,172	23,365	(632,993)
Extracurricular Activities	223,396	653	-	(222,743)
Capital Outlay	3,536,706	-	-	(3,536,706)
Debt Service:				
Principal	175,000	-	-	(175,000)
Interest and Fiscal Charges	417,788	-	-	(417,788)
<i>Totals</i>	<u>\$ 18,828,990</u>	<u>\$ 315,869</u>	<u>\$ 3,054,297</u>	<u>(15,458,824)</u>
<b>General Cash Receipts</b>				
Property Taxes Levied for:				
General Purposes				2,788,452
Debt Service				616,090
Classroom Facilities Maintenance				93,824
Grants and Entitlements not Restricted to Specific Programs				8,531,307
Grants and Entitlements Restricted for Classroom Facilities				10,970,839
Investment Earnings				535,397
Miscellaneous				22,766
<i>Total General Cash Receipts</i>				<u>23,558,675</u>
<i>Change in Net Assets</i>				8,099,851
<i>Net Assets Beginning of Year - Restated - See Note 3</i>				<u>16,927,476</u>
<i>Net Assets End of Year</i>				<u>\$ 25,027,327</u>

See accompanying notes to the basic financial statements.



**SOUTH POINT LOCAL SCHOOL DISTRICT**

**Lawrence County**  
 Balance Sheet - Cash Basis  
 Governmental Funds  
 June 30,2006

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 7,371,417	\$ 16,296,242	\$ 79,542	\$ 23,747,201
Cash and Cash Equivalents with Fiscal Agents	-	-	10,431	10,431
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>1,269,695</u>	<u>-</u>	<u>-</u>	<u>1,269,695</u>
<i>Total Assets</i>	<u><u>8,641,112</u></u>	<u><u>16,296,242</u></u>	<u><u>89,973</u></u>	<u><u>25,027,327</u></u>
<b>Fund Balances</b>				
Reserved for Encumbrances	323,966	17,215,467	99,991	17,639,424
Reserved for Property Taxes	-	-	-	-
Reserved for Textbooks and Materials	426,271	-	-	426,271
Reserved for Capital Improvements	709,889	-	-	709,889
Reserved for Budget Stabilization	67,581	-	-	67,581
Reserved for Bus Purchases	65,954	-	-	65,954
Unreserved, Undesignated, Reported in:				
General Fund	7,047,451	-	-	7,047,451
Special Revenue Funds	-	-	(190,928)	(190,928)
Debt Service Funds	-	-	43,795	43,795
Capital Projects Funds	<u>-</u>	<u>(919,225)</u>	<u>137,115</u>	<u>(782,110)</u>
<i>Total Fund Balances</i>	<u><u>\$ 8,641,112</u></u>	<u><u>\$ 16,296,242</u></u>	<u><u>\$ 89,973</u></u>	<u><u>\$ 25,027,327</u></u>

See accompanying notes to the basic financial statements.

**SOUTH POINT LOCAL SCHOOL DISTRICT**

**Lawrence County**

Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis

Governmental Funds

For the Fiscal Year Ended June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Cash Receipts</b>				
Taxes	\$ 2,788,452	\$ -	\$ 709,914	\$ 3,498,366
Intergovernmental	9,531,230	10,970,839	2,054,374	22,556,443
Investment Earnings	287,617	247,780	-	535,397
Tuition and Fees	31,328	-	-	31,328
Extracurricular Activities	2,214	-	103,311	105,525
Charges for Services	5,666	-	173,350	179,016
Miscellaneous	21,190	1,551	25	22,766
<i>Total Cash Receipts</i>	<u>12,667,697</u>	<u>11,220,170</u>	<u>3,040,974</u>	<u>26,928,841</u>
<b>Cash Disbursements</b>				
Current:				
Instruction:				
Regular	4,517,148	-	1,737,662	6,254,810
Special	710,483	-	1,205,707	1,916,190
Other	76,560	-	14,420	90,980
Support Services:				
Pupil	549,939	-	190	550,129
Instructional Staff	405,819	-	192,623	598,442
Board of Education	40,184	-	-	40,184
Administration	1,819,872	2,109	89,851	1,911,832
Fiscal	389,801	-	10,957	400,758
Operation and Maintenance of Plant	1,093,442	38,873	24,594	1,156,909
Pupil Transportation	719,490	-	-	719,490
Central	174,469	-	2,377	176,846
Operation of Non-Instructional Services	-	-	659,530	659,530
Extracurricular Activities	177,912	-	45,484	223,396
Capital Outlay	-	3,536,706	-	3,536,706
Debt Service:				
Principal	-	-	175,000	175,000
Interest and Fiscal Charges	-	-	417,788	417,788
<i>Total Cash Disbursements</i>	<u>10,675,119</u>	<u>3,577,688</u>	<u>4,576,183</u>	<u>18,828,990</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>1,992,578</u>	<u>7,642,482</u>	<u>(1,535,209)</u>	<u>8,099,851</u>
<b>Other Financing Sources (Uses)</b>				
Transfers - In	-	-	413,765	413,765
Transfers - Out	(413,765)	-	-	(413,765)
<i>Total Other Financing Sources (Uses)</i>	<u>(413,765)</u>	<u>-</u>	<u>413,765</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	1,578,813	7,642,482	(1,121,444)	8,099,851
<i>Fund Balances Beginning of Year - Restated - (See Note 3)</i>	<u>7,062,299</u>	<u>8,653,760</u>	<u>1,211,417</u>	<u>16,927,476</u>
<i>Fund Balances End of Year</i>	<u>\$ 8,641,112</u>	<u>\$ 16,296,242</u>	<u>\$ 89,973</u>	<u>\$ 25,027,327</u>

See accompanying notes to the basic financial statements.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
**Lawrence County**  
Statement of Revenues, Expenditures, and Changes  
In Fund Balance - Budget and Actual (Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget: Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Receipts and Other Sources	\$ 10,965,364	\$ 10,965,364	\$ 12,667,697	\$ 1,702,333
Total Disbursements and Other Uses	-	-	11,412,850	(11,412,850)
Net Change in Fund Balance	10,965,364	10,965,364	1,254,847	(9,710,517)
Fund Balance, July 1, 2005	6,881,587	6,881,587	6,881,587	-
Prior Year Encumbrances Appropriated	180,712	180,712	180,712	-
Fund Balance, June 30, 2006	<u>\$ 18,027,663</u>	<u>\$ 18,027,663</u>	<u>\$ 8,317,146</u>	<u>\$ (9,710,517)</u>

See accompanying notes to the basic financial statements.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
**Lawrence County**  
Statement of Fiduciary Net Assets - Cash Basis  
Fiduciary Fund  
June 30, 2006

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<b>Assets</b>	<u>Agency Fund</u>
Equity in Pooled Cash and Cash Equivalents	<u>\$ 13,878</u>
<b>Net Assets</b>	
Unrestricted	<u>13,878</u>
<b>Total Net Assets</b>	<u>\$ 13,878</u>

See accompanying notes to the basic financial statements.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **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 1,853 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 ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For 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 Insurance Purchasing Consortium. These organizations are presented in Notes 12 and 13 to the basic financial statements.

## **Note 2 - Summary of Significant Accounting Policies**

### **Basis of Presentation**

The School District uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement disclosures. 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 that provide a more detailed level of financial information. The more significant of the School District's accounting policies are described below.

**Government-wide Financial Statements** - The statement of net assets-cash basis presents the cash basis financial condition of the governmental activities of the School District at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the School District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program cash receipts 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. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the School District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the School District.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 2 - Summary of Significant Accounting Policies** (Continued)

**Fund Financial Statements** – During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of 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.

### **Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are 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. Cash basis assets are assigned to the various governmental funds according to the purpose for which they may or must be used. On a cash basis governmental fund assets equal fund balance. The following are the School District's major governmental funds:

**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 Capital Projects 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 Accounting**

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 2 - Summary of Significant Accounting Policies** (Continued)

As a result of the use of cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for good or services received but not yet paid), and accrued expenses and liabilities are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

### *Cash Receipts – Exchange and Non-exchange Transactions*

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the fiscal year in which the resources are received.

### *Cash Disbursements*

On the cash basis of accounting, disbursements are recognized at the time payments are made.

## **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 in effect when final appropriations for the fiscal year were passed.

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 budgetary basis in the Statement of Cash Receipts, Disbursements, and Changes in Fund Balance – Budget (Budgetary Basis) and Actual.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 2 - Summary of Significant Accounting Policies** (Continued)

### **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".

During fiscal year 2006, investments were limited to certificates of deposit, repurchase agreements and Treasury Bonds and Notes, which are reported at cost.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 amounted to \$287,617. Interest receipts credited to the Classroom Facilities Fund during fiscal year 2006 amounted to \$247,780.

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**

Capital assets acquired or constructed for the School District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported on the basic financial statements.

### **Interfund Activity**

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements 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 cash disbursements to the funds that initially paid for them are not presented on the financial statements. Interfund transfers between governmental activities are eliminated in the statement of activities. Flows of cash from one fund to another with a requirement for repayment are reported as advances in and out. Advances between governmental activities are eliminated in the statement of activities.

### **Compensated Absences**

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to employees.

### **Long-term Obligations**

The School District's cash basis of financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.



**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies** (Continued)

**Net Assets**

Net cash assets represents the cash basis assets held by the School District at year end. Net assets consist of cash receipts reduced by cash disbursements for the current year. 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.

At June 30, 2006, of the School District's \$17,747,545 restricted net assets, none were restricted by enabling legislation.

**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 14 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 taxes, textbooks and materials, capital improvements, bus purchases, and budget stabilization. The unreserved, undesignated portions of fund balance reflected for Governmental Funds are available for use within the specific purpose of those funds.

**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**Note 3 – Restatement of Net Assets/Fund Balances and Change in Accounting Principles**

For fiscal year 2006, the School District has implemented the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The School District had previously reported on a GAAP basis of accounting which was in accordance with accounting principles generally accepted in the United States of America. The implementation of cash basis financial statements had the following restatements on net assets and fund balances as previously stated:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances, June 30, 2005	\$6,348,722	\$8,653,760	(\$2,645)	\$14,999,837
Gasb 34 Cash Basis Restatement	<u>713,577</u>	<u>0</u>	<u>1,214,062</u>	<u>1,927,639</u>
Restated Fund Balances, June 30, 2005	<u>\$7,062,299</u>	<u>\$8,653,760</u>	<u>\$1,211,417</u>	<u>\$16,927,476</u>
Net Assets, June 30, 2005				\$38,888,022
Modified Adjustments				1,927,639
Deferred Assets				(29,833,265)
Capital Assets				(6,283,348)
Accrued Interest Payable				9,488
Unamortized Financing Costs				(183,974)
Long Term Liabilities:				
Compensated Absences Payable				1,691,944
School Improvement Bonds Payable				<u>10,710,970</u>
Governmental Activities Net Assets, Restated June 30, 2005				<u>\$16,927,476</u>

For the fiscal year 2006, the District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The application of this new standard did not have any effect on the financial statements, nor did its implementation require a restatement of prior year balances.

**Note 4 - Budgetary Basis of Accounting**

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances which are not included in budgeted figures. The table below represents those differences for the School District's major fund:

	<u>General Fund</u>
Budgetary Basis Fund Balance	\$ 8,317,146
Encumbrances	<u>323,966</u>
Fund Cash Balance	<u>\$ 8,641,112</u>

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **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 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;
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; and
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.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 5 - Deposits and Investments** (Continued)

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** Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2006, the School District's bank balance of \$7,958,666 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

**Investments** At June 30, 2006, the District's investment balance was as follows:

	Category 3	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$ 14,639,864	Less than 1 year
Treasury Bonds and Notes	2,996,357	Less than 1 year
Total Investments	<u>\$ 17,636,221</u>	

**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 and treasury bonds and notes.

**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 83% invested in repurchase agreements and 17% in treasury bonds and notes.

**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.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

## 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 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) are for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2006 real property taxes are collected in and intended to finance fiscal year 2007.

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. 2006 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2004. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$138,405,370	87%	\$138,388,950	86%
Public Utility Personal	9,441,590	6%	9,858,020	6%
Tangible Personal Property	11,472,030	7%	12,104,868	8%
Total	<u>\$159,318,990</u>	<u>100%</u>	<u>\$160,351,838</u>	<u>100%</u>
Tax Rate per \$1,000 of assessed valuation	\$20.90		\$25.81	

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

# **SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 7 - 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 2006, 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 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). 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 ensures 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 13). 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 8 - 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**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**Note 8 - 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 2006, 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 9 - 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 or by calling toll free (800) 878-5873. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 2006, 10.58 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, 2006, 2005, and 2004 were \$289,164, \$263,354, and \$204,167, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**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](http://www.strsoh.org).

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.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 9 - Defined Benefit Pension Plans** (Continued)

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. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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



# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 9 - 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, 2006, 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, 2006, 2005, and 2004 were \$948,936, \$836,309, and \$844,209 respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

### ***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, 2006, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

## **Note 10 - 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. All 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, 2006, 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 \$66,117 for fiscal year 2006.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon years of service, Medicare eligibility, and retirement status.

**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**Note 10 - Postemployment Benefits** (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006 the healthcare allocation was 3.42 %. 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 2006, the minimum pay was established at \$35,800. 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 2006 fiscal year equaled \$105,196.

Net health care costs for the year ended June 30, 2006 were \$158,751,207. 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, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, 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 59,492 participants eligible to receive health care benefits.

**Note 11 - Long Term Obligations**

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

	Principal Outstanding 6/30/05	Additions	Reductions	Principal Outstanding 6/30/06	Amounts Due in One Year
<b>Governmental Activities</b>					
General Obligation Bonds:					
Current Interest School Improvement Bonds *	\$ 9,760,000	\$ -	\$ 175,000	\$ 9,585,000	\$ 210,000
Capital Appreciation Bonds *	556,336	-	-	556,336	-
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 10,316,336</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 10,141,336</u>	<u>\$ 210,000</u>

\* Restated – The School District converted its financial reporting from the GAAP basis of accounting to the cash basis of accounting during the fiscal year ended June 30, 2006; therefore, the beginning balance of the general obligation bonds has been restated to reflect this change so that unamortized premium and accretion of such bonds is not reported.

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 total capital appreciation bond amount outstanding at June 30, 2006 including accretion is \$631,263; however, under the cash basis of accounting no accretion is reflected in the above schedule. 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. The school improvement bond will be paid from the debt service fund.

The School District's overall legal debt margin was \$4,450,681, with an unvoted debt margin of \$160,352 at June 30, 2006.

# SOUTH POINT LOCAL SCHOOL DISTRICT

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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## **Note 11 - Long Term Obligations** (Continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 210,000	\$ 413,938	\$ 623,938
2008	225,000	409,419	634,419
2009	240,000	404,120	644,120
2010	255,000	397,798	652,798
2011	270,000	390,305	660,305
2012-2016	1,575,000	1,854,253	3,429,253
2017-2021	1,805,000	1,693,000	3,498,000
2022-2026	2,380,000	1,184,838	3,564,838
2027-2031	3,195,000	544,163	3,739,163
2032	730,000	16,650	746,650
Total	<u>\$ 10,885,000</u>	<u>\$ 7,308,484</u>	<u>\$ 18,193,484</u>

The amortization schedule does not match the outstanding debt amounts listed above due to capital appreciation bonds which are reported at their matured accreted value above.

## **Note 12 - 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 \$73,812 for all services provided during fiscal year 2006. 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

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

## **Note 13 - 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 14 - 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, 2005	\$295,201	\$580,992	\$67,581	\$65,954
Current Year Set-aside Requirement	272,374	272,374	0	0
Qualifying Disbursements	<u>(141,304)</u>	<u>(143,477)</u>	<u>0</u>	<u>0</u>
Total Set-aside Balance Carried Forward to Future Fiscal Years	<u>426,271</u>	<u>709,889</u>	<u>67,581</u>	<u>65,954</u>
Set-aside Reserve Balance June 30, 2006	<u><u>\$426,271</u></u>	<u><u>\$709,889</u></u>	<u><u>\$67,581</u></u>	<u><u>\$65,954</u></u>

**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**Note 15 - 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, 2006.

***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 16 – Compliance and Accountability**

**Compliance**

Contrary to Ohio law, we noted the following instance of noncompliance. The School District failed to properly submit to the County Budget Commission permanent appropriation resolutions during fiscal year 2006. The School District spent less than it received for special education. Also the District had several negative fund balances indicating that monies from one fund was used to cover the expenses of another fund. The District did not approve all transfers with the Board of Education prior to make the transfer. The District failed to pass a permanent appropriation measure during the fiscal year. The District awarded several contracts during the audit period and could not provide proof that the Findings for Recovery Database was consulted. The District did not certify fund prior to ordering or contracting to receive goods or services. The District could not provide a hard copy of the minute records for the audit period. The District does not file its annual report on a GAAP basis. The District could not provide the Treasurer's bond for review. The District could not provide proof that required information was filed with the proper repositories.

**Accountability - Fund Equity Deficits**

At June 30, 2006, the Food Service, Martha Holden Jennings Foundation, Gifted Education, Data Communication, Title VI-B, Chapter I, Chapter II, Drug Free Grant, and Title VI-R Special Revenue Funds had fund balance deficits of \$15,315, \$1,316, \$178, \$50,292, \$59,861, \$374,481, \$2,629, \$11,472, and \$49,036, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when deficits occur.

**Note 17 – Interfund Activity**

Transfers made during the year ended June 30, 2006, were as follows:

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$ 413,765	\$ -
Other governmental funds	-	413,765
Total	<u>\$ 413,765</u>	<u>\$ 413,765</u>

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

**SOUTH POINT LOCAL SCHOOL DISTRICT**

**Lawrence County**

Schedule of Federal Awards Expenditures

For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05PU	10.553	\$ 127,853	\$ -	\$ 127,853	\$ -
National School Lunch Program	LLP4	10.555	304,176	-	304,176	-
<b>Total Nutrition Cluster</b>			432,029	-	432,029	-
Food Distribution Program	NA	10.550	-	81,641	-	81,641
<b>Total United States Department of Agriculture</b>			432,029	81,641	432,029	81,641
<b>United States Department of Education</b>						
<i>Passed through Ohio Department of Education</i>						
Special Education Grants to States	6BSF	84.027	233,266	-	484,907	-
Title I Grants to Local Education Agencies	C1S1	84.010	185,889	-	907,183	-
Safe & Drug Free Schools State Grants	DRS1	84.186	1,850	-	24,974	-
School Grants for Innovative Programs	C2S1	84.298	1,368	-	5,067	-
Education Technology State Grants	TJS1	84.318	1,005	-	3,079	-
Title VI-B Rural/Low Income	RUS1	84.358	-	-	-	-
Improving Teacher Quality State Grants	TRS1	84.367	59,485	-	220,419	-
<b>Total United States Department of Education</b>			482,863	-	1,645,629	-
<b>Total Federal Financial Assistance</b>			\$ 914,892	\$ 81,641	\$ 2,077,658	\$ 81,641

See Notes to the Schedule of Federal Awards Expenditures.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
**Lawrence County**  
Notes to Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2006

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**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 School District's federal award program. The Schedule has been prepared on the cash basis of accounting.

**NOTE B -FOOD DISTRIBUTIONS**

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.**

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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 were engaged to audit 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 School District), as of and for the year ended June 30, 2006 and have issued our report thereon dated October 5, 2007 in which we indicated that because of inadequacy in the Districts accounting records, we were unable to form an opinion over cash receipts, cash disbursement, and cash fund balance in the accompanying financial statements. We also noted that the School District changed its financial statement presentation to prepare its annual financial report on the cash basis of accounting contrary to Ohio Administrative code 117-2-03(B) and implemented GASB statement number 46. 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**

We were engaged to audit the financial statements of the School District and not to provide an opinion on the internal control over financial reporting. As noted in the previous paragraph we were unable to form an opinion on the accompanying financial statements. 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 initiate, record, process, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned cost, as items 2006-012 through 2006-018.

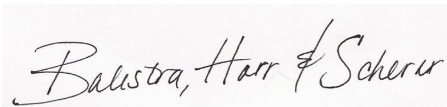
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 2006-012 through 2006-015 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 2006-001 through 2006-011.

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.



Balestra, Harr & Scherer, CPAs, Inc.

October 5, 2007

# BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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Ohio Society of Certified Public Accountants

## **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 each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are 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 each of its major federal programs 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 2006-019 through 2006-023 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Reporting, Cash Management, Period of Availability of Federal Funds, and Allowable Costs/Cost Principles 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) major federal programs. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to each of those programs.

In our opinion, because of the effects of the noncompliance described to in the preceding paragraph, the District did not comply, in all material respects, with the requirements referred to above that are applicable to the 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, 2006.

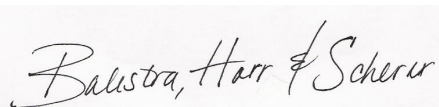
### **Internal Control Over Compliance**

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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-024.

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 the applicable requirements of laws, regulations, 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, we consider reportable condition item 2006-024 to be a material weakness.

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.  
October 5, 2007

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(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?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under .510?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education - Grants to States - CFDA #84.027 Title I Grants to Local Educational Agencies – CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---------------------------------------------------------------------------------------------------------

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

Ohio Revised 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, 2006, the Department reported that the School District spent \$487,516 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.

The Treasurer and Board should review special education spending for miscoding and review the information provided at the training and in the ODE e-mail correspondence to help assure the School District properly codes special education disbursements. The School District can also contact the Department for additional information on this matter. The School District should also review its spending level for special education to ensure that all monies received for special education are properly disbursed.

**FINDING NUMBER 2006-002**

**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 following funds at June 30, 2006 in the following amounts:

<b>Fund</b>	<b>Amount</b>
006 – Food Service	(\$15,315)
019 – MHJ Foundation	(\$1,316)
431 – Gifted Ed	(\$178)
451 – Data Comm	(\$50,292)
516 – IDEA-B	(\$59,861)
572 – Title I	(\$374,481)
573 – Title VI	(\$2,629)
584 – Drug Free Grant	(\$11,472)
599 – Title VI-R	(\$49,036)

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-002 (Continued)**

The School District Treasurer should 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, the School District Treasurer should 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 2006-003**

**Noncompliance Citation**

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

- 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 from the general fund to any other fund of the subdivision by resolution of the taxing authority.

Although all of the District's interfund transfers were from the General fund and therefore legal, the Treasurer did not obtain approval from the Board prior to making these transfers. Therefore, the District is noncompliant with ORC Sections 5705.14, 5705.15 & 5705.16.

The School District's Board should review all transfers for legality and properly approve them by resolution.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-004**

**Noncompliance Citation**

Ohio Revised Code Section 5705.36 states in part that on or about the first day of each fiscal year, fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

The District did not certify to the county auditor the total amount from all sources available for expenditures at any time throughout the audit period.

The Treasurer should ensure that the total estimated amount from all sources available for expenditure is certified to the county auditor on or about the first day of each fiscal year.

**FINDING NUMBER 2006-005**

**Noncompliance Citation**

Ohio Revised Code Section 5705.38(B) provides that a board of education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed as permitted by law (see below), the board may pass a temporary measure for meeting the ordinary expense of the district until it passes an annual appropriation measure.

As discussed in Auditor of State Bulletin 98-012 there are two circumstances when school district certificates/certifications would be issued after October 1:

1. A certificate/certification would be issued after October 1 when a district has borrowed against its spending reserve. This certificate/certification would not be issued until second half personal property taxes are settled.
2. A certificate/certification would be issued after October 1 when the delivery of a tax duplicate is delayed under Ohio Rev. Code §323.17 because a subdivision in the county has placed a levy on the November ballot which, if approved, will go on the current tax list and duplicate.

If a school district is in either of these two situations, passage of the annual appropriation measure should be delayed until the necessary certificates/certifications are received.

Neither of the above two circumstances apply to the School District, and the School District did not pass a permanent appropriation measure during the fiscal year. This resulted in the District's expenditures being in excess of appropriations in every fund, which is a violation of Ohio Revised Code Section 5705.41(B).

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-005 (Continued)**

The District should ensure that permanent appropriations are passed by the first day of October when neither of the above two circumstances apply. When a temporary measure must be passed, the District should pass its permanent appropriation measure as quickly as possible.

**FINDING NUMBER 2006-006**

**Noncompliance Citation**

Ohio Rev. Code Section 9.24(A), (B), (D), (E), and (G); and AG Opinion 2004-014 – Unresolved findings for recovery states that no state agency and no political subdivision receiving more than \$50,000 in state funds in a fiscal year shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person against whom a finding for recovery has been issued by the Auditor of State, if the finding for recovery is unresolved.

The District awarded several contracts during the audit period and could not provide proof that the Findings for Recovery Database was consulted prior to the awarding of those contracts.

Failure to consult the Findings for Recovery Database prior to awarding contracts could result in the District contracting with a person or company with whom a finding for recovery has been issued. The District should ensure that the Findings for Recovery Database is consulted prior to the awarding of any contracts. The District should also maintain proof that the Database was viewed.

**FINDING NUMBER 2006-007**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(D) states in part that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The statute provides the following exceptions to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.



**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-007 (Continued)**

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Ohio Revised Code Section 5705.41(D) also states that fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

We noted several instances in which a certificate of the fiscal officer was not made prior to ordering or contracting to receive goods or services. Furthermore, the District has not established a maximum amount that blanket certificates should not exceed.

The District should ensure that purchase orders are prepared and properly certified prior to ordering or contracting to receive goods or services. The District should also ensure that the Board passes a resolution establishing a maximum amount that blanket certificates should not exceed.

**FINDING NUMBER 2006-008**

**Noncompliance Citation**

Ohio Revised Code Sections 121.22 states that all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

The District could not provide a hard copy of the minute records, properly signed, numbered, and indexed, for the regular and special meetings held during the year. The District should ensure that board minute records are promptly recorded, numbered, indexed, and available for public inspection. The District should also ensure that minutes are approved and signed by appropriate officials.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-009**

**Noncompliance Citation**

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements in accordance with the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

Pursuant to Ohio Revised Code Section 117.38, the School District can be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

**FINDING NUMBER 2006-010**

**Noncompliance Citation**

Ohio Revised Code Section 3313.25 requires the School District Treasurer and the Board of Education to furnish a bond in an amount to be approved by the Board of Education for the faithful performance of all the official duties of office.

The School District could not provide the Treasurer's bond for our review. Failure to ensure that the Treasurer is properly bonded could result in the District being held liable for misuse of funds.

The Treasurer should obtain the necessary bond as approved by the Board of Education and make the bond available for review as required by the Ohio Revised Code.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-011**

**Noncompliance Citation**

17 C.F.R. Section 240.15c2-12 states in part that when a School District receives municipal securities, the issuer and/or obligated persons (i.e., entities directly or contingently responsible for repaying the securities) must agree in writing, to provide to all approved Nationally Recognized Municipal Security Information Repositories (NRMSIRs) and to the State Information Depository (SID): See the appendix immediately following this section for the name and addresses of the Repositories.

- Annual financial information and operating data.
- Timely material event notices. Underwriters must also establish procedures to assure they receive these notices.
- Audited financial statements, when and if available.
- Timely notice of failure to provide required financial information.

Material Events defined:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities;
11. Debt ratings changes; and
12. Failure to provide required annual financial information on or before the date specified.

Exemptions: Certain municipal security issues are exempted from the Rule such as:

- Security issues of less than \$1 million.
- Securities with maturities of 18 months or less.
- Securities sold in denominations of at least \$100,000, with maturities of no more than nine months.
- Securities sold to no more than 35 “sophisticated investors” with maturities of no more than nine months.
- Securities for which no obligated person is obligated for more than \$10 million in aggregate Municipal securities.

The District did not qualify for any of the exemptions noted above. However, they could not provide proof that required information was filed with the proper repositories. The District should ensure that all required information is filed with the proper repositories each year.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-012**

**Material Weakness – Recording of Transactions**

We noted several instances in which transactions were not posted to correct line items or not recorded in the School District's financial records. Inaccurate or incomplete posting of transactions impedes the ability of the Board to accurately assess the financial status of the School District. Examples of such deficiencies were noted as follows:

- The Treasurer failed to record a foundation settlement receipt check in the gross amount of \$443,066. Corresponding memo expenses should have been recorded in the amount of \$84,206 to arrive at the net amount received from the State of \$358,860.
- The Treasurer recorded a tax settlement check received from the County Auditor into only the General fund, instead of posting a proper allocation of the receipt into the Bond Levy and Permanent Improvement funds as required. Furthermore, several tax settlement receipts were posted net of deductions and fees.
- It was noted during the course of the audit that the Treasurer does not routinely post transactions as they occur. Transactions often aren't posted to the system until months after they occur.

The accompanying financial statements have been adjusted to properly reflect the above transactions when the difference resulted in a material variance.

The aforementioned errors were the result of a lack of controls over the financial reporting. Inaccurate recording of transactions results in inaccurate fund balances and cash position. The Treasurer should ensure that all transactions of the District are promptly and correctly recorded in its accounting records.

**FINDING NUMBER 2006-013**

**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?

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-013 (Continued)**

In addition, there was no documentation in the minute record that the Board of Education reviewed the audit report for fiscal year 2005. 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.

**FINDING NUMBER 2006-014**

**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.

This resulted in misrepresented financial statements and inaccurate book balances. 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 in transit 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.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-014 (Continued)**

- We recommend interest 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.

**FINDING NUMBER 2006-015**

**Material Weakness – Insufficient Records**

During the course of an audit, there are several items that must be made available to auditors to ensure that all material balances and compliance issues can be addressed. The Treasurer could not provide many of the items requested for audit. Examples of such are as follows:

- Board approved salaries for Superintendent, Assistant Superintendents, Treasurer, Assistant Treasurers, and Principals.
- Pooled or pledged collateral statements
- Depository agreements
- 1099 Forms issued during the audit period
- 412 certificates for temporary appropriation measure (since final appropriations were never passed) and for increased salary schedules.
- Accurate bank reconciliations
- Support for bank and investment balances

Since these items were not available for audit, an opinion could not be formed on the School District's financial statements, and several compliance issues could not be addressed. The Treasurer should retain all records and make them available for audit as requested.

**FINDING NUMBER 2006-016**

**Reportable Condition – Student Activities**

Sales potential forms were not properly completed and on file for all fund-raising activities. Sales potential forms should be utilized uniformly throughout the School District for all extracurricular events in order to provide controls over these activities where varying amounts of money are being collected by different individuals. The lack of these forms could result in an inability to account for amounts paid into the School District Treasurer's office or to support expenditures made from the student activity account.

Additionally, budgets were not prepared at the beginning of the fiscal year by student activity organizations and submitted to the Board of Education for approval to document approval of the activity and proposed fund-raising activity.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-016 (Continued)**

Furthermore, the Treasurer does not periodically provide student activity advisors with financial statements with month-to-date, year-to-date, and budgeted versus actual information pertaining to their accounts. This inhibits the advisors from adequately monitoring the financial condition of the activity accounts for which they are responsible.

The School District should require all student activity fund raisers to utilize sales potential forms. These forms should be properly completed and approved. The forms should contain sufficient detail to document the source and amount of all receipts and to support related expenditures.

Prior to the performance of any financial transaction by an authorized student activity, the School District should also require that a budget be submitted and approved for the school year. The Board of Education should also prepare and follow policies and procedures to monitor the activity of these organizations.

The Treasurer should also provide financial reports to each student activity advisor showing month-to-date, year-to-date, and budgeted versus actual figures in order to allow them to sufficiently monitor the status of their accounts.

**FINDING NUMBER 2006-017**

**Reportable Condition – Student Athletics**

The District does not utilize tally sheets to document ticket sales for many of its athletic events. The only athletic events for which tally sheets are routinely used are football and boys and girls basketball. According to the Treasurer, tally sheets are not utilized for the other sporting events because the District does not require payment to enter the event. However, tickets are sold to individuals who want to pay, and those receipts are classified as “donations” since payment is not required.

Failure to account for ticket sales substantially increases the risk that fraudulent activity or mistakes will occur. The District should implement a policy requiring tally sheets to be utilized for all athletic events, even when payment is not required. For events in which donations are accepted in lieu of payment, tickets should be distributed to those who donate. Since the amount of the donation is equal to the price of a ticket, tally sheets should be completed the same as they are for events that do require attendees to purchase tickets.

**FINDING NUMBER 2006-018**

**Reportable Condition – Absence of policies**

Ohio Revised Code (various sections) requires governments to establish a formal policy with regards to use of credit cards, cell phones, government owned vehicles and equipment. These policies should, at a minimum, identify authorized users; guidelines for allowable use/ purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the legislative body.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

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

**FINDING NUMBER 2006-018 (Continued)**

The School District does not have a formal policy with regard to the use of cell phones or purchasing cards. The District's Board should approve cell phone and purchasing card policies, and place the policies in the District's Policy and Procedure Manual.



**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
------------------------------------------------------------

<b>Finding Number</b>	2006-019
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	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 06 were not accurate per the District’s accounting records. Below is a comparison of the reported figures and actual figures for the 2006 grant year final expenditure report.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

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

<b>Finding Number</b>	2006-019 (Continued)
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010, Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Citation – Reporting (Continued)**

Grant	Fund and Object Level	Expenditures per FER	Expenditures per system	Variance
Title I	572-100	\$ 326,890	\$ 357,480	\$ (30,590)
Title I	572-200	\$ 103,449	\$ 194,624	\$ (91,175)
Title I	572-400	\$ 4,678	\$ 9,404	\$ (4,726)
Title I	572-500	\$ 31,112	\$ 18,356	\$ 12,756
Title I	572-600	\$ 300	\$ 300	\$ 0
			Total Title I	\$ (113,735)

The Final Expenditure Reports Submitted for Idea B for grant year 06 were not accurate per the District's accounting records. Below is a comparison of the reported figures and actual figures for the 2006 grant year final expenditure report.

Grant	Fund and Object Level	Expenditures per FER	Expenditures per system	Variance
Idea B	516-100	\$ 228,501	\$ 259,606	\$ (31,105)
Idea B	516-200	\$ 92,027	\$ 117,521	\$ (25,494)
Idea B	516-400	\$ 29,024	\$ 29,456	\$ (432)
Idea B	516-500	\$ 16,250	\$ 17,537	\$ (1,287)
Idea B	516-600	\$ 468	\$ 912	\$ (444)
			Total Idea B	\$ (58,762)

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.

The School District should 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 2006 grants.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
------------------------------------------------------------------------

<b>Finding Number</b>	2006-020
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Citation – Federal Payroll Certification**

2 CFR Part 225 provides in part that salaries and wages shall be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit. When employees work on multiple activities or cost objectives, a distribution of compensation shall be supported by personnel activity reports that reflect the actual activity and total activity of the employees, unless certain time study requirements are met. An employee whose compensation is allocated solely to a single cost objective must furnish semiannual certificates that he/she has been engaged solely in activities supportive of the cost objectives.

None of the Districts employees who are paid from IDEA-B or Title I funds were required to submit personnel activity reports or semiannual certificates as required above. Personnel activity reports were not evidenced for those employees working on multiple cost objectives.

The District should ensure that semiannual certification is obtained for employees who work solely on a single cost objective. The District should also obtain personnel activity reports reflecting the actual activity of employees who work on multiple activities or cost objectives.

<b>Finding Number</b>	2006-021
<b>CFDA Title and Number</b>	Special Education Grants to States (Idea B) 84.027 Safe & Drug Free Schools State Grants/84.186 School Grants for Innovative Programs/84.298 Education Technology State Grants/84.318 Improving Teacher Quality State Grants/84.367
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	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.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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<b>Finding Number</b>	2006-021 (Continued)
<b>CFDA Title and Number</b>	Special Education Grants to States (Idea B) 84.027 Safe & Drug Free Schools State Grants/84.186 School Grants for Innovative Programs/84.298 Education Technology State Grants/84.318 Improving Teacher Quality State Grants/84.367
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Cash Management (Continued)**

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)

The District did not properly utilize its cost centers and due to that, cash balances accumulated 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, 2006.

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Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
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<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
------------------------------------------------------------------------

<b>Finding Number</b>	2006-021 (Continued)
<b>CFDA Title and Number</b>	Special Education Grants to States (Idea B) 84.027 Safe & Drug Free Schools State Grants/84.186 School Grants for Innovative Programs/84.298 Education Technology State Grants/84.318 Improving Teacher Quality State Grants/84.367
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Cash Management (Continued)**

Fund - Cost Center	Description of the Grant/Fund	Fund Cash Balance as of June 30, 2006
516-9000	Idea B - Fiscal Year 2000	\$602
516-9003	Idea B - Fiscal Year 2003	27,242
516-9004	Idea B - Fiscal Year 2004	97,272
516-9005	Idea B - Fiscal Year 2005	71,644
516-9015	Idea B - Access Special Ed	33,668
573-9004	Idea B - Fiscal Year 2004	5,007
584-9003	Drug Free Grant	2,519
584-9004	Drug Free Grant	1,753
590-9003	Reducing Class Size Grant	49,426
590-0004	Reducing Class Size Grant	40,147
599-9000	CAFS	12,443
599-9002	RLCF Raising Bar	23,239
599-9003	Title IV	35,576
599-9015	Title II-D	986
599-9098	South East Best Grant	258
599-9197	Goals 2000 Intervention	39
599-9899	Raising the Bar MS Grant	15,088
599-9993	Schoolnet Grant	8,266
<b>Total</b>		<b>\$425,175</b>

Based on the fact that these fund balances should not be in existence as of June 30, 2006 according to their grant years and final expenditure reports, we will issue the total of \$425,175 as a questioned cost.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
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Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
------------------------------------------------------------------------

<b>Finding Number</b>	2006-021 (Continued)
<b>CFDA Title and Number</b>	Special Education Grants to States (Idea B) 84.027 Safe & Drug Free Schools State Grants/84.186 School Grants for Innovative Programs/84.298 Education Technology State Grants/84.318 Improving Teacher Quality State Grants/84.367
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Cash Management (Continued)**

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 funds 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.

<b>Finding Number</b>	2006-022
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Period of Availability**

34 CFR Sections 76.704 through 76.707 require that non-federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual financial status report.

The Treasurer charged \$33,234 in expenses to the IDEA special cost center for FY06 (516-9006) in the months of October, November, and December, 2006, which are subsequent to the end of the period of availability.

The Treasurer charged \$30,290 in expenses to the Title I special cost center for FY06 (572-9006) in the months of October, November, and December, 2006, which are subsequent to the end of the period of availability.

Based on the fact that the District charged expenses to the grants’ special cost centers subsequent to the end of the period of availability, we will issue the total of \$63,524 as a questioned cost.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
------------------------------------------------------------------------

<b>Finding Number</b>	2006-023
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Allowability**

2 CFR Part 220 states in pertinent part that the general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or GASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such objective in accordance with relative benefits received.
- *Consistency* – Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purposes in like circumstances was allocated to the Federal award as an indirect cost.
- *Conformity to Laws, Regulations, and Sponsored Agreements* – Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.
- *Transactions that Reduce or Offset Direct or Indirect Costs* – Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- *Costs Documentation* – Costs must be documented in accordance with OMB Circular A-110 for non-profit organizations and institutions of higher education or the A-102 Common Rule for State, local and Indian tribal governments.

To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

- a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- c) Be authorized or not prohibited under State or local laws or regulations.
- d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>Finding Number</b>	2006-023 (Continued)
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost – Allowability (Continued)**

- f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- j) Be adequately documented.

Direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are (A-87, Attachment A, paragraph E):

- (1) Compensation of employees for the time devoted and identified specifically to the performance of those awards.
- (2) Cost of material acquired, consumed, or expended specifically for the purpose of those awards.
- (3) Equipment and other approved capital expenditures.
- (4) Travel expenses incurred specifically to carry out the award.

In reference to (1) above, compensation of employees for time devoted specifically to the performance of the IDEA award is an allowable cost. Associated benefits, including retirement expenses, Medicare, insurance, workers compensation, etc. are allowable as well. Like salaries, benefits should be charged in relation to the amount of time an employee devotes to the project.

The Treasurer charged \$53,481 in payroll expenses during the period of availability to the IDEA special cost center (516-9006), and \$14,159 in retirement expenses, which equals 26.4% of the applicable payroll. However, since the Board’s share of retirement expense is only actually 14% of payroll, we would expect there to be only \$7,487 in retirement expenses charged to the project during the period of availability. Therefore, the amount in question is \$6,672.

The Treasurer charged \$354,375 in payroll expenses to the Title I special cost center (572-9006), and \$110,847 in retirement expenses, which equals 31.3% of the applicable payroll. However, since the Board’s share of retirement expense is only actually 14% of payroll, we would expect there to be only \$49,613 in retirement expenses charged to the project. Therefore, the amount in question is \$61,234.

Based on the fact that the District charged retirement expenses to the grants’ special cost centers in excess of 14% of the salaries charged to the grants, we will issue the total of \$67,906 as questioned costs.



**SOUTH POINT LOCAL SCHOOL DISTRICT**  
Lawrence County

Schedule of Findings and Questioned Costs  
OMB Circular A -133 Section .505  
For the Fiscal Year Ended June 30, 2006

<b>Finding Number</b>	2006-024
<b>CFDA Title and Number</b>	Title I Grants to Local Education Agencies (Title I) 84.010 Special Education Grants to States (Idea B) 84.027
<b>Federal Award Number/Year</b>	C1S1 – 05/06, 6BSF – 05/06
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Material Weakness – Project Cash Requests**

The Ohio Department of Education allocates a certain amount to each school district receiving IDEA Part B funding. The money is awarded to the District on a reimbursement basis, and the District's funding period lasts from July 1 to June 30, with an additional 90 day period of availability beginning June 30. Final expenditure reports are due no later than September 30, and should be submitted once all liabilities of the program have been liquidated. Funds not requested for reimbursement (if not approved to be carried forward to the next grant year) are lost to the school district and subsequent allocations are decreased based on lack of need.

The Treasurer did not request reimbursement for all of the School District's IDEA-B expenditures charged to 516-9006. The District's IDEA-B allocation for FY06 was \$541,593. Per the District's BUDSUM, total expenditures for the 2006 grant year were \$425,031, and only \$319,116 was requested for reimbursement. The District essentially forfeited \$222,477 in IDEA-B funding that was not approved to be carried forward to the next grant year. Also the District appears to have \$105,915 in IDEA-B expenditures for which a Project Cash Request was never submitted. Since the District was not reimbursed for these costs, the General fund was forced to subsidize this loss.

Additionally, the School District did not periodically prepare Project Cash Requests for reimbursement of IDEA-B and Title I costs. Instead, the District submitted a PCR after the end of the fiscal year requesting reimbursement at that time. Since the General fund did not advance funds to cover the negative balance that remained throughout the audit period, this caused the IDEA-B and Title I federal funds to run negative throughout the fiscal year.

The Treasurer should ensure that Project Cash Requests are submitted routinely throughout the year requesting reimbursement for all of the District's IDEA-B expenditures.

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
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Schedule of Prior Audit Findings  
OMB Circular A-133 §315(b)  
For the Fiscal Year Ended June 30, 2006

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2005-001	Noncompliance Citation – 7 CFR Part 210.02 and 210.14(a)	Yes	N/A
2005-002	Noncompliance Citation – Ohio Revised Code Section 3317.022(C)(5)	No	Reissued as Finding Number 2006-001
2005-003	Noncompliance Citation – Ohio Revised Code Section 5705.10	No	Reissued as Finding Number 2006-002
2005-004	Noncompliance Citation – Ohio Revised Code Sections 5705.14, 5705.15 & 5705.16	No	Reissued as Finding Number 2006-003
2005-005	Material Weakness – Financial Monitoring	No	Reissued as Finding Number 2006-013
2005-006	Material Weakness – Monthly Bank Reconciliations	No	Reissued as Finding Number 2006-014
2005-007	Noncompliance Citation – Federal Reporting	No	Reissued as Finding Number 2006-019
2005-008	Questioned Cost – Cash Management	No	Reissued as Finding Number 2006-021

**SOUTH POINT LOCAL SCHOOL DISTRICT**  
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Corrective Action Plan  
OMB Circular A-133 §315(c)  
For the Fiscal Year Ended June 30, 2007

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person:</b>
2006-001	This has been corrected. A Director of Special Education has been appointed to oversee funds. Discussion and approval has been obtained from the Ohio Department of Education detailing the use of previous years' funds.	10/17/07	Mark Christian, Assistant Superintendent
2006-002	This is in the process of being corrected. The treasurer will obtain Board approval in advance for all transfers and monitor balances of funds and inform the proper administrative employees.	10/17/07	Daniel McDavid, Treasurer
2006-003	The Board will approve transfers before they are made.	10/17/07	Daniel McDavid, Treasurer
2006-004	While this was approved by Board Resolution it was not filed with the County Auditor. The treasurer will correct this issue.	11/1/07	Daniel McDavid, Treasurer
2006-005	Appropriation Resolution was passed. The treasurer will provide proof of passage.	11/1/07	Daniel McDavid, Treasurer
2006-006	Major contracts (i.e., construction) is checked by the construction manager. The treasurer will institute procedures to assure compliance.	11/1/07	Daniel McDavid, Treasurer
2006-007	Policy is in place to avoid usage of then & now certificates. The treasurer will monitor and use appropriately.	11/1/07	Daniel McDavid, Treasurer
2006-008	Minute records are kept electronically and hard copies are given to the Board at the following meeting to approve. The treasurer will print and index the minutes record.	11/1/07	Daniel McDavid, Treasurer
2006-009	Due to impending move and replacement of all furnishings, capital equipment, etc. Decision was made to file on a cash basis until a true, new statement of values could be obtained.	11/1/07	Daniel McDavid, Treasurer
2006-010	Bond will be obtained.	11/1/07	Daniel McDavid, Treasurer

**SOUTH POINT LOCAL SCHOOL DISTRICT**

Lawrence County

Corrective Action Plan

OMB Circular A-133 §315(c)

For the Fiscal Year Ended June 30, 2007

2006-011	The treasurer will follow compliance guidelines.	11/1/07	Daniel McDavid, Treasurer
2006-012	Errors will be corrected.	10/18/07	Daniel McDavid, Treasurer
2006-013	The District will comply with audit recommendation.	11/1/07	Daniel McDavid, Treasurer
2006-014	Bank reconciliations are performed. The treasurer will provide a detailed list of reconciling items to audit.	10/18/07	Daniel McDavid, Treasurer
2006-015	Items will be located and provide.	10/18/07	Daniel McDavid, Treasurer
2006-016	Sales potential forms and budgets were requested by the treasurer. Financial reports are made available upon request to the coordinators. Coordinators will have until January 1, 2008 or treasurer will not approve expenditures.	1/1/08	Daniel McDavid, Treasurer
2006-017	Treasurer will contact the Athletic Director and discuss with The Board of Education issue will be resolved depending on the outcome of those discussions.	11/1/07	Daniel McDavid, Treasurer
2006-018	Policy will be written and adopted.	11/01/07	Daniel McDavid, Treasurer
2006-019	Differences occurred due to coding errors. Funds will be maintained and details will be provided to audit.	11/1/07	Daniel McDavid, Treasurer
2006-020	Certification will be passed.	11/1/07	Daniel McDavid, Treasurer
2006-021	The District has a meeting scheduled with ODE Director Jeff Jordan October 30 <sup>th</sup> .	11/1/07	Daniel McDavid, Treasurer
2006-022	The District has a meeting scheduled with ODE Director Jeff Jordan October 30 <sup>th</sup> .	11/1/07	Daniel McDavid, Treasurer
2006-023	The District has a meeting scheduled with ODE Director Jeff Jordan October 30 <sup>th</sup> .	11/1/07	Daniel McDavid, Treasurer
2006-024	The District has a meeting scheduled with ODE Director Jeff Jordan October 30 <sup>th</sup> .	11/1/07	Daniel McDavid, Treasurer



**Mary Taylor, CPA**  
Auditor of State

**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 24, 2007**