



**Auditor of State
Betty Montgomery**

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Continental Local School District
Putnam County
5211 State Route 634
Continental, Ohio 45831-9155

To the Board of Education:

We have audited the accompanying financial statements of the Continental Local School District, Putnam County, (the District) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

During fiscal year 2004 the District changed its method of accounting from generally accepted accounting principles to an other comprehensive basis of accounting. Ohio Administrative Code § 117-2-03(B) requires the 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 and 3, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit entity wide information on governmental activities and business type activities, major fund disclosures, assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Continental Local School District, as of June 30, 2004, or the results of its operations or its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended for the information and use of the audit committee, management, the Board of Education, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 15, 2004

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF CASH AND CASH EQUIVALENTS
AND FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2004

Cash and Cash Equivalents \$ 1,088,712

Cash Balances by Fund Type

Governmental Fund Types:	
General Fund	\$ 299,800
Special Revenue Funds	464,174
Debt Service Funds	138,627
Capital Projects Funds	95,657
Proprietary Fund Types:	
Enterprise Funds	6,706
Fiduciary Fund Types:	
Expendable Trust Fund	1,971
Non-Expendable Trust Fund	45,499
Agency Funds	<u>36,278</u>
Total	<u><u>\$ 1,088,712</u></u>

The notes to the financial statements are an integral part of this statement.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types	
	General	Special Revenue
Cash receipts:		
Property tax and other local taxes	\$ 1,358,968	\$ 19,265
Intergovernmental	3,478,397	312,529
Earnings on investments	13,326	314
Extracurricular Activities	-	68,442
Classroom Materials and Fees	31,213	-
Donations	-	30,000
Miscellaneous	47,731	25,293
Total cash receipts	<u>4,929,635</u>	<u>455,843</u>
Cash disbursements:		
Instruction		
Regular	2,562,403	97,484
Special	619,926	184,643
Vocational Education	86,875	-
Supporting Services		
Pupils	177,997	5,554
Instructional Staff	154,087	49,430
Board of Education	28,704	-
Administration	524,964	33,963
Fiscal Services	109,363	1,679
Operation and Maintenance of Plant	571,881	31,965
Pupil Transportation	239,456	-
Central	19,824	3,766
Non-Instructional Services	-	7,987
Extracurricular Activities	102,389	59,249
Facilities Acquisition and Construction	-	-
Debt Service:	-	-
Principal Retirement	-	-
Interest and Fiscal Charges	-	-
Total cash disbursements	<u>5,197,869</u>	<u>475,720</u>
Total receipts over/(under) disbursements	<u>(268,234)</u>	<u>(19,877)</u>
Other financing receipts and (disbursements):		
Transfers-In	7,471	225,197
Transfers-Out	(20,000)	-
Advances-In	3,750	1,360
Advances-Out	(2,860)	(3,750)
Refund of Prior Year Expenditures	1,040	-
Refund of Prior Year Receipts	(980)	-
Total other financing receipts/(disbursements)	<u>(11,579)</u>	<u>222,807</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(279,813)	202,930
Fund cash balances, July 1	579,613	261,244
Fund cash balances, June 30	<u><u>\$ 299,800</u></u>	<u><u>\$ 464,174</u></u>

The notes to the financial statements are an integral part of this statement.

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$ 115,289	\$ 45,312	\$ -	\$ 1,538,834
14,176	19,936	-	3,825,038
-	566	6	14,212
-	-	-	68,442
-	-	-	31,213
-	-	-	30,000
-	-	400	73,424
<u>129,465</u>	<u>65,814</u>	<u>406</u>	<u>5,581,163</u>
-	-	-	2,659,887
-	-	-	804,569
-	-	-	86,875
-	-	-	183,551
-	13,183	-	216,700
-	-	-	28,704
3,149	-	-	562,076
-	-	-	111,042
-	16,887	-	620,733
-	-	-	239,456
-	-	-	23,590
-	-	2,722	10,709
-	-	-	161,638
-	594	-	594
-	-	-	-
60,000	-	-	60,000
63,985	-	-	63,985
<u>127,134</u>	<u>30,664</u>	<u>2,722</u>	<u>5,834,109</u>
<u>2,331</u>	<u>35,150</u>	<u>(2,316)</u>	<u>(252,946)</u>
-	-	-	232,668
(7,471)	(225,197)	-	(252,668)
-	-	-	5,110
-	-	-	(6,610)
-	-	-	1,040
-	-	-	(980)
<u>(7,471)</u>	<u>(225,197)</u>	<u>-</u>	<u>(21,440)</u>
(5,140)	(190,047)	(2,316)	(274,386)
143,767	285,704	4,287	1,274,615
<u>\$ 138,627</u>	<u>\$ 95,657</u>	<u>\$ 1,971</u>	<u>\$ 1,000,229</u>

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	Proprietary	Fiduciary Fund Type		Totals (Memorandum Only)
	Fund Type	Nonexpendable Trust	Agency	
	Enterprise			
Operating cash receipts:				
Food Services	\$ 163,802	\$ -	\$ -	\$ 163,802
Extracurricular Activities	3,043	-	77,855	80,898
Miscellaneous	-	3,495	-	3,495
Total operating cash receipts	166,845	3,495	77,855	248,195
Operating cash disbursements:				
Personal Services	117,162	-	1,719	118,881
Employees Retirement and Insurance	51,041	-	-	51,041
Purchased Services	3,935	-	-	3,935
Supplies and Materials	82,198	-	-	82,198
Other operating expenses	682	1,645	79,835	82,162
Total operating cash disbursements	255,018	1,645	81,554	338,217
Operating income (loss)	(88,173)	1,850	(3,699)	(90,022)
Non-operating cash receipts:				
Intergovernmental receipts	56,903	-	-	56,903
Taxes	6,082	-	-	6,082
Earnings on Investments	-	163	-	163
Miscellaneous	3,340	-	1,871	5,211
Total non-operating cash receipts	66,325	163	1,871	68,359
Excess of receipts over/(under) disbursements before interfund transfers and advances	(21,848)	2,013	(1,828)	(21,663)
Transfers-In	20,000	-	-	20,000
Advances-In	1,500	-	-	1,500
Net receipts over/(under) disbursements	(348)	2,013	(1,828)	(163)
Fund cash balances, July 1	7,054	43,486	38,106	88,646
Fund cash balances, June 30	\$ 6,706	\$ 45,499	\$ 36,278	\$ 88,483

The notes to the financial statements are an integral part of this statement.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL COMPARISON
ALL GOVERNMENTAL, PROPRIETARY AND TRUST FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Governmental Fund Types:			
General Fund	\$ 4,953,189	\$ 4,938,146	\$ (15,043)
Special Revenue Funds	676,909	681,040	4,131
Debt Service Funds	140,561	129,465	(11,096)
Capital Projects Funds	69,456	65,814	(3,642)
Proprietary Fund Type:			
Enterprise Funds	266,706	253,170	(13,536)
Fiduciary Fund Type:			
Expendable Trust Fund	450	406	(44)
Nonexpendable Trust Fund	3,658	3,658	-
Total (Memorandum Only)	\$ 6,110,929	\$ 6,071,699	\$ (39,230)

The notes to the financial statements are an integral part of this statement.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
ALL GOVERNMENTAL, PROPRIETARY, AND TRUST FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Prior Year Carryover Appropriations</u>	<u>2004 Appropriations</u>
Governmental Fund Types:		
General Fund	\$ 172,844	\$ 5,227,609
Special Revenue Funds	26,807	527,109
Debt Service Fund	-	136,621
Capital Projects Funds	4,448	253,219
Proprietary Fund Type:		
Enterprise Funds	561	260,780
Fiduciary Fund Type:		
Expendable Trust Fund	-	3,100
Nonexpendable Trust Fund	-	1,649
	<u> </u>	<u> </u>
Total (Memorandum Only)	\$ 204,660	\$ 6,410,087

The notes to the financial statements are an integral part of this statement.

<u>Total</u>	<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/2004</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 5,400,453	\$ 5,218,849	\$ 149,911	\$ 5,368,760	\$ 31,693
553,916	475,720	4,887	480,607	73,309
136,621	134,605	-	134,605	2,016
257,667	255,861	-	255,861	1,806
261,341	255,018	2,662	257,680	3,661
3,100	2,722	-	2,722	378
1,649	1,645	-	1,645	4
<u>\$ 6,614,747</u>	<u>\$ 6,344,420</u>	<u>\$ 157,460</u>	<u>\$ 6,501,880</u>	<u>\$ 112,867</u>

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**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE ENTITY

Continental Local School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District was established in 1928. The School District serves an area of approximately 74 square miles. It is located in Putnam County and includes the Village of Continental and all or portions of Greensburg, Jackson, Monroe, Palmer and Perry Townships and the Villages of Cloverdale and Dupont. It is staffed by 34 classified employees, 51 certified full-time teaching personnel, and 3 administrative employees who provide services to 742 students and other community members. The School District currently operates 1 elementary school and 1 middle/high school.

The District's management believes these financial statements present all activities for which the District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements 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 expenditures when a commitment is made (i.e. when an encumbrance is approved).

A general fixed asset group and general long-term debt obligation group of accounts is not recorded on the financial statements by the District under the basis of accounting used. By virtue of Ohio law, the District is required to maintain the encumbrance method of accounting and to make appropriations.

A. Basis of Presentation – Fund Accounting

The District uses fund accounting to segregate cash and investments which are restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund – The General Fund is the operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund – This fund is used for the accumulation of resources for, and the payment of, general obligation long-term debt principal and interest other than that accounted for in the propriety fund.

Capital Projects Funds – The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

PROPRIETARY FUND TYPES

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

Enterprise Fund – The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

FIDUCIARY FUND TYPES

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include expendable trust, non-expendable trust, and agency funds.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Budget

The requirement to submit a budget of estimated cash receipts and disbursements to the Putnam County Auditor has been waived by the County.

2. Estimated Resources

The Putnam County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30 the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried over and need not be reappropriated.

C. Property, Plant, and Equipment

Acquisition of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the District.

E. Cash and Investments

The District maintains a cash and investment pool which is available for all funds. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Cash and Cash Equivalents" on the Combined Statement of Cash and Cash Equivalents and Fund Cash Balances. During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, and no load mutual funds. All investments of the District had a maturity of two years or less. Investments are stated at cost. Investment earnings are allocated as authorized by State statute and Board resolution.

F. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Total- (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund –type eliminations have not been made in the aggregation of this data.

3. ACCOUNTING CHANGE

During fiscal year 2004, the District changed its method of accounting from generally accepted accounting principles to a basis in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

accordance with generally accepted accounting principles. The affect on the excess of revenues over/(under) disbursements/expenditures as previously reported, although potentially material, cannot be determined at this time. This change had the following affect on fund balances as previously reported:

<u>Fund Type</u>	<u>at 6/30/2003</u>	<u>Adjustments</u>	<u>at 7/1/2003</u>
General	\$ 239,994	\$ 339,619	\$ 579,613
Special Revenue	243,758	17,486	261,244
Debt Service	154,030	(10,263)	143,767
Capitla Projects	288,488	(2,784)	285,704
Enterprise	166,539	(159,485)	7,054
Expendable Trust	4,287	-	4,287
Nonexpendable Trust	43,486	-	43,486
Agency	-	38,106	38,106

4. CASH AND INVESTMENTS

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

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

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

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

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

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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

Cash on Hand: At year end, the District had \$ 80 in undeposited cash on hand.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$104,868 and the bank balance was \$170,238. Of the bank balance, \$100,700 was covered by federal depository insurance and \$69,538 was covered by securities held by the pledging financial institution's trust department in the District's name.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio and no load money market mutual funds are unclassified investments since they are not evidenced by securities which exist in physical or book entry form.

The District maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

Demand deposits	\$ 60,868
Certificates of deposit	44,000
Total deposits	104,868
STAR Ohio	953,261
No load mutual funds	30,503
Total investments	983,764
Cash on hand	80
Total cash, deposits, and investments	\$ 1,088,712

5. PROPERTY TAXES

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2003.

Real property taxes become a lien on all nonexempt real property located in the District on January 1. 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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

with the remainder payable by June 20 of the following year. Under certain circumstances, State statute permits later payment dates to be established.

The full tax rate applied to real property, for the fiscal year ended June 30, 2004, was \$36.05 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$25.0306 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$26.8841 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended June 30, 2004, was \$36.05 per \$1,000 of assessed valuation.

Real Property Valuation	
Residential/Agricultural	\$ 34,825,260
Commercial/Industrial	2,079,620
Public Utilities	88,260
Tangible Personal Property Valuation	
General	2,560,564
Public Utilities	<u>2,772,440</u>
Total Valuation	<u><u>\$ 42,326,144</u></u>

The Putnam County Treasurer collects property tax on behalf of all taxing districts within the District. The Putnam County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the District.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During fiscal year 2004, the District contracted with Ohio Schools Risk Sharing Authority for property, fleet, and liability insurance.

Coverage's provided by the District's insurance carrier's are as follows:

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Deductible	Coverage
Building and contents - replacement costs	\$ 3,500	\$ 20,081,863
Automobile liability		4,000,000
Uninsured motorists		50,000
Medical payments		1/5
General liability:		
Per occurrence		4,000,000
Total per year		6,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal year 2003.

7. RETIREMENT SYSTEMS

Certified teachers employed by the District participate in the State Teachers Retirement System of Ohio (STRS). The District's official and all other employees belong to the School Employees Retirement System of Ohio (SERS). STRS and SERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. STRS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent of participants' gross salaries. SERS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent for of participants' gross salaries. The District has paid all contributions required through June 30, 2004.

8. DEBT OBLIGATIONS

The following is a description of the District bonds outstanding as of June 30, 2004:

	Principal	Interest Rate
School Facilities Construction and Improvement Bonds FY 1999	\$ 1,432,800	3.2 - 5%
3.2 - 5.0%		

School Facilities Construction and Improvement Bonds FY 1999 - On March 30, 1999, the School District issued \$1,644,729 in voted general obligation bonds for constructing a building addition and renovating the current facility. The bond issue includes serial and capital appreciation bonds, in the amount of \$1,605,000 and \$39,729, respectively. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2022. The bonds are being retired through the Bond Retirement debt service fund.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The serial bonds maturing after December 1, 2010, are subject to redemption, at the option of the School District, either in whole or in part, on any interest payment date on or after December 1, 2009, at a redemption price equal to 101 percent and after December 1, 2010 at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to redemption prior to maturity. The capital appreciation bonds will mature on December 1, 2012 and December 1, 2013, in the amount of \$100,000 each year. For fiscal year 2004, \$11,061 was accreted on the capital appreciation bonds for a total outstanding bond value of the capital appreciation bonds of \$97,800 at fiscal year end.

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

Fiscal Year Ending June 30	General Obligation Bonds		Interest	Total
	Serial	Capital		
2005	\$ 60,000	\$ -	\$ 61,615	\$ 121,615
2006	60,000		59,185	119,185
2007	65,000		56,606	121,606
2008	70,000		53,770	123,770
2009	70,000		50,778	120,778
2010-2014	225,000	\$ 200,000	211,879	636,879
2015-2019	460,000		140,500	600,500
2020-2022	325,000		24,625	349,625
Total	<u>\$ 1,335,000</u>	<u>\$ 200,000</u>	<u>\$ 658,958</u>	<u>\$ 2,193,958</u>

9. LOCAL INCOME TAX

The District levies a voted tax of 1% for general operations on the income of residents and of estates. The tax was effective January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund and totaled \$510,102 in fiscal year 2004.

10. SET ASIDE REQUIREMENTS

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 the end of the fiscal year or offset by similarly restricted resources

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Instructional Materials	Capital Maintenance
Balance June 30, 2003	\$ (175,821)	\$ 21,394
Required set-aside	98,306	98,306
Off-sets		(64,577)
Qualifying expenditures	(177,863)	(26,345)
Balance June 30, 2004	\$ (255,378)	\$ 28,778
Balance carried forward to FY 2005	\$ (255,378)	\$ 28,778

The School District had qualifying expenditures during the fiscal year that reduced the instructional material set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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**Auditor of State
Betty Montgomery**

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

Continental Local School District
Putnam County
5211 State Route 634
Continental, Ohio 45831-9155

To the Board of Education:

We have audited the financial statements of the Continental Local School District, Putnam County, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004 in which we disclosed the District's financial statements followed an other comprehensive basis of accounting and were not prepared in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated December 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A

material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated December 15, 2004.

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



Betty Montgomery
Auditor of State

December 15, 2004

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 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 § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. 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 § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.



**Auditor of State
Betty Montgomery**

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**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM 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 30, 2004**