



**Auditor of State
Betty Montgomery**

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets - June 30, 2004	12
Statement of Activities - For the Fiscal Year Ended June 30, 2004	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds - June 30, 2004.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2004.....	15
Statement of Revenues, Expenditures, and Changes In Fund Balances - Governmental Funds For the Fiscal Year Ended June 30, 2004	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement Of Activities – June 30, 2004	17
Statement of Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund For the Fiscal Year Ended June 30, 2004	18
Statement of Fiduciary Net Assets - Fiduciary Funds - June 30, 2004	19
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust – For the Year Ended June 30, 2004.....	20
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Expenditures - For the Year Ended June 30, 2004.....	45
Notes to Schedule of Federal Awards Expenditures	46
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	49
Schedule of Findings.....	51

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Sugarcreek Local School District
Greene County
60 East South Street
Bellbrook, Ohio 45305

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the Districts basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 30, 2005

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 Unaudited

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

Overall:

- Total net assets increased \$106,857, which represents a 1.8 percent increase from fiscal year 2003.
- Total assets of governmental activities increased \$44.9 million, attributed to the issuance of general obligation debt for a new school building which for the most part remained unspent at year-end and increases in property taxes receivable due to the additional bond levy to be collected and higher property values.
- General revenues accounted for \$21.2 million or 91.7 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$1.9 million or 8.3 percent of total revenues of \$23.1 million.
- The School District issued \$48 million worth of general obligation bonds during fiscal year 2004. Of this amount \$44 will be used to finance the construction of a new middle school building. At June 30, 2004, \$1.7 million had been spent in the preliminary phases of the construction project which was capitalized and reported as construction in progress. The remaining \$4 million of the bond issue was used to advance refund a portion of a general obligation bond previously issued. The School District utilized the low interest rates available to reduce its debt service requirements in the future.
- The general fund of the School District ended fiscal year 2004 with an unreserved, undesignated fund deficit of \$2.0 million compared with the \$1.8 million deficit reported at June 30, 2003. Increased operational costs, as well as limitations on the growth rate of the School District's primary revenues sources, are the main factors contributing to the fund deficit. Management has instituted cost reduction measures and will be seeking addition tax revenues from its constituents in the near future.

Using the Basic Financial Statements

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the General, Debt Service, Permanent Improvement, and Building Funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds, and therefore only the major funds are presented separate from the other governmental funds.

SUGARCREEK LOCAL SCHOOL DISTRICT
Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Funds

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

The School District as a Whole

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

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

TABLE 1
NET ASSETS

	<u>2004</u>	<u>2003</u>
<i>Assets</i>		
Current and Other Assets	\$ 54,954,871	\$ 11,442,272
Capital Assets	<u>18,196,062</u>	<u>16,790,176</u>
Total Assets	<u>73,150,933</u>	<u>28,232,448</u>
<i>Liabilities</i>		
Long-Term Liabilities	53,354,738	10,125,409
Other Liabilities	<u>13,710,239</u>	<u>12,127,940</u>
Total Liabilities	<u>67,064,977</u>	<u>22,253,349</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	7,950,873	7,621,112
Restricted	956,260	529,835
Unrestricted	<u>(2,821,177)</u>	<u>(2,171,848)</u>
Total Net Assets	\$ <u>6,085,956</u>	\$ <u>5,979,099</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2004, the School District's net assets were \$6.1 million. Of that amount, approximately \$8.0 million was invested in capital assets, net of debt related to those assets. Another \$956,260 was subject to external restrictions upon its use. The remaining unreserved deficit of \$2.8 million was due to the accruals of long-term liabilities for which the School District does not currently have resources to cover. Management of the School District is currently discussing various options to stabilize their long-term financial condition.

During fiscal year 2004, the School District issued approximately \$44 million of general obligation school improvement bonds to finance the construction of a new middle school building. As of June 30, 2004, only

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

\$1.7 million of construction in progress related to this project has been capitalized. The unspent proceeds from this bond issue is reported in the School District's building capital projects fund and is the primary reason current assets increased by nearly \$43.5 million on June 30, 2004 as compared to amounts reported as of June 30, 2003. The remainder of the increase can be attributed to increases in property tax values which results in a higher property taxes receivable amount being recorded at year-end. Capital assets increased over the value reported the previous year due to recording \$2.1 million of capital asset additions (including \$1.7 million construction in progress related to the middle school project) which was offset by current year depreciation expense.

The increase in the long-term liabilities reported for the School District can be attributed entirely to the addition of the \$44 million in general obligation bonds for the new middle school building. The debt service payments of this debt will be paid with the proceeds of a bond levy approved by voters which will be collected over the next 30 years. The increase in current liabilities is attributed to an increase in deferred revenue associated with the property tax receivable amount recorded.

Table 2 shows the changes in net assets for fiscal years 2004 and 2003.

TABLE 2
CHANGE IN NET ASSETS

	<u>2004</u>	<u>2003</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 1,220,579	\$ 1,102,121
Operating Grants and Contributions	678,695	459,022
Capital Grants and Contributions	16,071	39,467
General Revenues:		
Property Taxes	12,603,522	10,370,468
Grants and Entitlements	8,003,879	7,783,380
Other	<u>603,256</u>	<u>236,041</u>
Total Revenues	<u>23,126,002</u>	<u>19,990,499</u>
Program Expenses		
Instruction	10,330,594	9,280,527
Support Services:		
Pupils and Instructional Staff	2,727,735	2,804,613
Board of Education, Administration, Fiscal and Business	2,394,745	2,103,166
Plant Operation and Maintenance	1,754,322	1,479,444
Pupil Transportation	1,541,395	1,447,002
Central	122,872	149,737
Operation of Non-Instructional Services	582,234	487,976
Extracurricular Activities	1,022,039	1,019,555
Unallocated Depreciation	454,454	454,658
Interest and Fiscal Charges	<u>2,088,755</u>	<u>457,242</u>
Total Expenses	<u>23,019,145</u>	<u>19,683,920</u>
 Increase in Net Assets	 \$ <u>106,857</u>	 \$ <u>306,579</u>

SUGARCREEK LOCAL SCHOOL DISTRICT
Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As shown in Table 2, \$20.6 million, or 89.1 percent, of the School District's total revenue is derived from property taxes and state entitlement programs. While the increase in property tax revenue, \$2.2 million, is significant, approximately \$1.3 of this increase is derived from tax collections on the bond levy which must be used to pay the debt service of the bonds used to construct the new middle school building. The remaining \$900,000 of the increase in property tax revenue was used to support operations (\$700,000) as well as to finance other capital projects throughout the School District (\$200,000). Revenue from state entitlement programs, or Foundation payments, increased by approximately \$220,000 or 2.8 percent from the amount received during fiscal year 2003.

Total expenses of the School District increased by \$3.3 million in fiscal year 2004 compared with fiscal year 2003. Of this amount, \$1.6 million is interest expense associated with the debt issued to construct the new middle school building. All other expense categories increased by \$1.7 million, or 8.7 percent, from those experienced in the previous fiscal year. The majority of this increase is reported in the instruction area, \$10.3 million in fiscal year 2004 compared with \$9.3 million in fiscal year 2003, where costs directly dealing with the teaching of pupils and the interaction between teachers and pupils are reported.

Some of the School District's activities are financed through user charges, tuition and fees, and/or specific grants or contributions. These revenue sources are defined as program revenues, and the statement of activities shows these revenues in conjunction with the expenses of the School District to present the net cost of each function reported by the School District; that is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements. Table 3 shows the net cost of service reported for fiscal year 2004 compared with those reported for fiscal year 2003.

TABLE 3
NET COST OF SERVICE

	2004	2003
Instruction	\$ 9,735,148	\$ 8,907,695
Support Services:		
Pupils and Instructional Staff	2,447,622	2,504,007
Board of Education, Administration, Fiscal and Business	2,394,745	2,103,166
Plant Operation and Maintenance	1,751,532	1,477,199
Pupil Transportation	1,525,324	1,447,002
Central	122,872	139,813
Operation of Non-Instructional Services	74,646	36,927
Extracurricular Activities	508,702	555,601
Unallocated Depreciation	454,454	454,658
Interest and Fiscal Charges	2,088,755	457,242
Total Expenses	\$ 21,103,800	\$ 18,083,310

In fiscal year 2004, 91.7 percent of the School District's expenses were financed through property taxes and state foundation revenues (general revenues), which is essentially the same percentage as fiscal year 2003. In fiscal year 2004, the School District had program revenues totaling \$1.9 million compared with \$1.6 million in fiscal year 2003. These statistics indicate how dependent the finances of the School District are on property taxes and state foundation revenue

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District's Funds

Information about the School District's major funds begins after the Statement of Activities. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$23.1 million and expenditures of \$26.8 million. Other financing sources and uses for the governmental funds totaled \$45.2 million including the issuance of nearly \$48 million worth of multi-purpose general obligation bonds, partial advance refunding of previously issued general obligation bonds (\$4.3) million and the premium realized on the sale of the multi-purpose bonds. The net increase in fund balance of \$41.5 million resulted in an overall fund balance of \$40.7 million for all governmental funds. Of this fund balance, \$8.6 million was reserved for various purposes, which left approximately \$32.1 million as unreserved, undesignated fund balance in the various governmental funds.

The School District's general fund, the primary operating fund, ended fiscal year 2004 with a unreserved, undesignated fund deficit of nearly \$2.0 million as compared with a fund deficit of \$1.8 million in fiscal year 2003. Increased operational costs, as well as limitations on the growth rate of the School District's primary revenue sources, are the main factors contributing to the fund deficit. Management instituted measures to control or reduce operating costs and is examining various scenarios to present to voters seeking to obtain additional operating revenues through property tax rate increases.

General Fund Budgeting Highlights

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

For the General Fund, budget basis revenue was \$18.2 million as compared to the original budget estimates of \$18.1 million. The School District received slightly higher than expected levels of taxes and intergovernmental receipts during the fiscal year.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$18.8 million, less than \$50,000 higher than what was originally budgeted. The higher than expected expenditures in the special instruction and instructional staff support services functions were mostly offset by lower than expected expenditures in the regular instruction functions.

As the budget for the General Fund is amended throughout the fiscal year for unanticipated revenues and expenditures, the final amended budget amounts approximate the actual budgetary results realized by the School District.

SUGARCREEK LOCAL SCHOOL DISTRICT
Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets

At the end of fiscal year 2004, the School District had \$23.1 million invested in land, buildings, furniture and equipment and vehicles in governmental activities. Table 4 shows fiscal year 2004 balances compared to 2003. Amounts reported for fiscal year 2003 have been adjusted to reflect a prior period adjustment made to account for the School District's change in its capitalization threshold as well as the estimated depreciable lives of certain capital assets. For additional detail on the School District's capital assets readers should review Note 9 to the basic financial statements.

Table 4
Capital Assets at June 30

	2004	2003
Land	\$ 3,432,055	\$ 3,432,055
Improvements	1,284,705	1,284,705
Building and improvements	16,881,064	16,857,298
Equipment	2,382,539	2,378,932
Vehicles	2,505,563	2,171,918
Construction in progress	1,707,528	-
Less: Accumulated Depreciation	<u>(9,997,392)</u>	<u>(9,334,732)</u>
Totals	\$ <u>18,196,062</u>	\$ <u>16,790,176</u>

Overall, net capital assets increased approximately \$1.4 million from fiscal year 2003. The increase in capital assets results from the capitalization of the construction or acquisition of capital assets during the fiscal year being a greater amount than the amount of depreciation being charged against the assets.

As previously mentioned, the School District has started the process of building a new middle school building. The initial phases of this project were started in fiscal year 2004, including the architectural work and preliminary ground preparation. As of June 30, 2004, approximately \$1.7 million was spent on the project which was capitalized and reported as construction in progress.

Other significant capital purchases made during the fiscal year included four school busses at a total cost of nearly \$223,000, other vehicles costing approximately \$110,000, and various pieces of equipment at a cost of just under \$100,000.

Since fiscal year 2000, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2004, this amounts to approximately \$360,000 for each set aside requirement. Conversely, the School District spent approximately \$541,000 on textbooks and instructional supplies and \$493,000 on capital improvements during fiscal year 2004, significantly more than the amounts required.

Cost associated with repair and maintenance of the School District's facilities and other assets that do not extend the useful life of the capitalized item, is included within the plant operation and maintenance function.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt Administration

At June 30, 2004, the School District had two general obligation bond issues outstanding with outstanding principal of \$51.2 million, of which \$600,000 is due within one year. A \$48 million multi-purpose bond was issued during fiscal year 2004; \$4 million was used to advance refund a portion of the 1994 general obligation bond and the remaining \$44 million was issued to finance the construction of a new middle school building. The other general obligation bond was issued in 1994 for the construction of the new high school building and had an original principal of approximately \$10 million. After the advance refunding of a portion of this bond, the principal outstanding as of June 30, 2004 was \$2.1 million.

Other debt obligations of the School District include capital leases and long-term notes payable. As of June 30, 2004 the School District had approximately \$794,000 million of capital lease principal payments due. The majority of this obligation is related to the lease of the facility used to house the School District's transportation department. The long-term notes were issued to facilitate energy conservation projects at the school buildings with the anticipated outcome being the savings realized from these projects would be sufficient to repay the debt. These notes are scheduled to be paid off over the next two fiscal years.

At June 30, 2004, the School District's net bond debt total of \$50.6 million exceeded the nine percent of assessed valuation limit set by the Ohio Revised Code. However, the School District was granted special needs status under Section 133.06(B) of the Ohio Revised Code and bond counsel has determined the School District's debt limit under this status to be \$57.8 million, which leaves a balance of approximately \$7.2 million borrowing capacity within the adjusted limitation.

For more detailed disclosures regarding the School District's debt obligations the reader should refer to the notes to the basic financial statements.

For the Future

Sugarcreek Local School District continues to struggle with increasing enrollment and the reduction in operating revenue provided by the State of Ohio. The School District has experienced a steady increase of approximately 60 students per year for the last decade. Recent legislative decisions continue to reduce operating funds through the planned phase out of the inventory tax base and reduced foundation subsidy payments. It is anticipated that the realized state funding for fiscal year 2005 will be approximately \$250,000 less than the amount received in funding for fiscal year 2004. These factors coupled with negotiated wage increases for the next fiscal year, and increasing operating cost will continue to put a financial strain on the School District.

In order to address projected shortfalls, the Board of Education and administration implemented budget cuts of over \$1 million for fiscal year 2004 and over \$525,000 for fiscal year 2005. In addition, the board plans to place an operating levy on the May 2005 ballot, which would be effective January 1, 2006, but details of the type and amount of the levy have not yet been finalized.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

To address classroom space deficiencies caused by the increasing enrollment, a new middle school will be constructed with the proceeds of a \$43,985,000 bond issue approved in May 2003. In addition to the construction of the new middle school, all other school buildings will receive renovations and/or additions. Currently, the School District has received bids on this project and construction is underway in all phases except for the Stephen Bell Elementary School, which begins in this spring.

The five year 2 mill permanent improvement levy was renewed by voters in November 2003, and it will allow the School district to maintain an updated bus fleet, perform necessary building maintenance and repairs, and purchase needed technology for the classroom

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Sugarcreek Local School District, 60 East South Street, Bellbrook, OH 45305 or call (937) 848-4800.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash, cash equivalents, and investments	\$ 42,155,683
Receivables:	
Property and other taxes	12,110,161
Accounts	37,902
Intergovernmental	8,680
Cash and cash equivalents with fiscal agents	6,061
Deferred charges	636,384
Non-depreciable capital assets	5,139,583
Depreciable capital asset, net	13,056,479
Total Assets	73,150,933
Liabilities:	
Accounts payable	128,374
Accrued wages and benefits payable	1,692,408
Intergovernmental payable	358,091
Accrued interest payable	189,236
Deferred revenue	11,012,130
Notes payable	330,000
Long Term Liabilities:	
Due within one year	1,060,454
Due in more than one year	52,294,284
Total Liabilities	67,064,977
Net Assets:	
Invested in capital assets, net of related debt	7,950,873
Restricted for:	
Debt service	591,207
Capital projects	6,061
Budget stabilization	45,306
Other purpose	313,686
Unrestricted	(2,821,177)
Total Net Assets	\$ 6,085,956

See accompanying notes to the basic financial statements.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for services & sales	Operating grants and contributions	Capital grants and contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 8,764,573	\$ 253,727	\$ 29,191	\$ -	\$ (8,481,655)
Special	1,566,021	-	312,528	-	(1,253,493)
Support Services:					
Pupils	973,272	-	-	-	(973,272)
Instructional staff	1,754,463	-	280,113	-	(1,474,350)
Board of education	55,746	-	-	-	(55,746)
Administration	1,557,300	-	-	-	(1,557,300)
Fiscal	643,629	-	-	-	(643,629)
Business	138,070	-	-	-	(138,070)
Operation and maintenance of plant	1,754,322	-	2,790	-	(1,751,532)
Pupil transportation	1,541,395	-	-	16,071	(1,525,324)
Central	122,872	-	-	-	(122,872)
Operation of non-instructional services	582,234	453,515	54,073	-	(74,646)
Extracurricular activities	1,022,039	513,337	-	-	(508,702)
Interest and fiscal charges	2,088,755	-	-	-	(2,088,755)
Unallocated depreciation *	454,454	-	-	-	(454,454)
Total Governmental Activities	\$ 23,019,145	\$ 1,220,579	\$ 678,695	\$ 16,071	(21,103,800)

General Revenues:

Property taxes levied for:	
General purposes	9,940,215
Debt service	2,049,398
Capital outlay	613,909
Grants and entitlements not restricted to specific programs	8,003,879
Investment earnings	393,815
Miscellaneous	209,441

Total General Revenues 21,210,657

Changes in net assets 106,857

Net assets at beginning of year - restated 5,979,099

Net assets at end of year \$ 6,085,956

* - This amount excludes the depreciation that is included in the direct expense of the various functions.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Debt Service	Permanent Improvement	Building Fund	Non-major Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 204,072	\$ 807,235	\$ 6,928	\$ 40,822,054	\$ 315,394
Cash and Cash Equivalents: With Fiscal Agent	-	-	-	-	6,061
Receivables:					
Taxes	8,410,891	3,153,986	545,284	-	-
Accounts	37,902	-	-	-	-
Intergovernmental	-	-	-	-	8,680
Interfund	545	-	-	-	-
Total Assets	\$ 8,653,410	\$ 3,961,221	\$ 552,212	\$ 40,822,054	\$ 330,135
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 124,950	\$ -	\$ 1,133	\$ 618	\$ 1,673
Accrued Wages and Benefits	1,667,564	-	-	-	24,844
Intergovernmental Payable	358,091	-	-	-	-
Interfund Payable	-	-	-	-	545
Notes Payable	-	-	330,000	-	-
Deferred Revenue	7,702,396	2,911,193	498,016	-	-
Total Liabilities	9,853,001	2,911,193	829,149	618	27,062
<u>Fund Balances:</u>					
<u>Reserved for:</u>					
Encumbrances	55,575	-	7,094	7,408,908	65,389
Property Taxes	708,495	242,793	47,268	-	-
Budget Stabilization	45,306	-	-	-	-
<u>Unreserved, Undesignated:</u>					
General Fund	(2,008,967)	-	-	-	-
Special Revenue Funds	-	-	-	-	231,588
Debt Service Fund	-	807,235	-	-	-
Capital Projects Funds	-	-	(331,299)	33,412,528	6,096
Total Fund Balances	(1,199,591)	1,050,028	(276,937)	40,821,436	303,073
Total Liabilities and Fund Balances	\$ 8,653,410	\$ 3,961,221	\$ 552,212	\$ 40,822,054	\$ 330,135

See accompanying notes to the basic financial statements.

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total Governmental Funds <hr/>	Total Governmental Fund Balances:	\$ 40,698,009
\$ 42,155,683	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
6,061	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,196,062
12,110,161	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	99,475
37,902	Bond issuance costs associated with general obligation bonds payable are recorded as a deferred charge on the accrual basis but are not reported in the funds	584,788
8,680	Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.	
545	G.O. bonds	(50,122,026)
<hr/> \$ 54,319,032	Accrued interest payable	(189,236)
\$ 128,374	Deferred premium on bond issuance	(1,282,206)
1,692,408	Deferred amount on refunding	214,409
358,091	Intergovernmental payable	(144,233)
545	Compensated absences	(1,023,869)
330,000	Energy conservation bonds	(151,000)
11,111,605	Capital leases	<hr/> (794,217)
<hr/> 13,621,023	Total	<hr/> (53,492,378)
7,536,966	Net Assets of Governmental Activities	<hr/> \$ 6,085,956
998,556		
45,306		
(2,008,967)		
231,588		
807,235		
<hr/> 33,087,325		
40,698,009		
<hr/> \$ 54,319,032		

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	Debt Service	Permanent Improvement	Building Fund	Non-major Governmental Funds
Revenues:					
Taxes	\$ 9,959,510	\$ 2,031,545	\$ 614,377	\$ -	\$ -
Intergovernmental	7,709,928	221,553	72,567	-	697,252
Student Sales	-	-	-	-	453,515
Interest	375,067	18,677	-	-	71
Tuition and Fees	253,727	-	-	-	68,584
Extracurricular Activities	-	-	-	-	444,753
Miscellaneous	89,246	-	-	-	87,952
Total Revenues	18,387,478	2,271,775	686,944	-	1,752,127
Expenditures:					
Current:					
Instruction:					
Regular	8,545,392	-	19,675	-	29,191
Special	1,237,236	-	-	-	322,321
Support Services:					
Pupils	941,376	-	-	-	30,718
Instructional Staff	1,465,701	-	-	-	315,089
Board of Education	55,746	-	-	-	-
Administration	1,513,099	-	14,819	12,400	-
Fiscal	585,717	682,912	9,549	618	-
Business	100,811	-	-	-	-
Plant Operation and Maintenance	1,773,439	-	48,076	-	2,635
Pupil Transportation	1,426,671	-	208,589	-	-
Central	117,910	-	-	-	4,962
Non-Instructional Services	14,248	-	4,500	-	546,526
Extracurricular Activities	460,837	-	22,872	-	535,049
Capital Outlay	24,819	-	(20,128)	1,707,528	-
Debt Service:					
Principal Retirement	220,565	460,000	141,323	1,400,000	-
Interest and Fiscal Charges	42,584	1,339,099	19,486	386,101	-
Total Expenditures	18,526,151	2,482,011	468,761	3,506,647	1,786,491
Excess of Revenues Over(Under) Expenditures	(138,673)	(210,236)	218,183	(3,506,647)	(34,364)
Other Financing Sources (Uses):					
Payment to Escrow Agent	-	(4,296,939)	-	-	-
Proceeds from Sale of Bonds	-	47,990,000	-	-	-
Premium on Sale of Bonds	-	1,434,150	-	-	-
Proceeds from Sale of Assets	32,243	-	-	-	-
Transfers-In	-	-	5,052	44,328,083	55,006
Transfers-Out	(60,058)	(44,328,083)	-	-	-
Total Other Financing Sources (Uses)	(27,815)	799,128	5,052	44,328,083	55,006
Net Change in Fund Balance	(166,488)	588,892	223,235	40,821,436	20,642
Fund Balance at Beginning of Year	(1,033,103)	461,136	(500,172)	-	282,431
Fund Balance at End of Year	\$ (1,199,591)	\$ 1,050,028	\$ (276,937)	\$ 40,821,436	\$ 303,073

See accompanying notes to the basic financial statements.

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<p>Total Governmental Funds</p> <hr/> <p>\$ 12,605,432 8,701,300 453,515 393,815 322,311 444,753 177,198</p> <hr/> <p>23,098,324</p>	<p>Net Change in Fund Balances - Total Governmental Funds</p> <p><i>Amounts reported for governmental activities in the statement of activities are different because:</i></p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>	<p>\$ 41,487,717</p>																								
	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Fixed asset additions</td> <td style="width: 10%; text-align: right;">2,141,061</td> <td style="width: 40%;"></td> </tr> <tr> <td>Current year depreciation</td> <td style="text-align: right;">(735,175)</td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">1,405,886</td> <td></td> </tr> </table>	Fixed asset additions	2,141,061		Current year depreciation	(735,175)		Total	1,405,886		<p>1,405,886</p>															
Fixed asset additions	2,141,061																									
Current year depreciation	(735,175)																									
Total	1,405,886																									
<p>8,594,258 1,559,557</p>	<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	<p>(4,565)</p>																								
<p>972,094 1,780,790 55,746 1,540,318 1,278,796 100,811 1,824,150 1,635,260 122,872 565,274 1,018,758 1,712,219</p>	<p>In governmental funds, proceeds from sale of debt is considered a source of financing, but in the statement of net assets, the debt obligations are reported as a liability</p> <p>In the statement of activities, certain costs and proceeds associated with long-term debt obligations issued during the year are accrued and amortized over the life of the debt obligation. In governmental funds these costs and proceeds are recognized as financing sources and uses.</p>	<p>(47,990,000)</p>																								
	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Bond issuance costs</td> <td style="width: 10%; text-align: right;">654,087</td> <td style="width: 40%;"></td> </tr> <tr> <td>Premium on bonds issued</td> <td style="text-align: right;">(1,434,150)</td> <td></td> </tr> <tr> <td>Deferred charge on refunding</td> <td style="text-align: right;">291,939</td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">(488,124)</td> <td></td> </tr> </table>	Bond issuance costs	654,087		Premium on bonds issued	(1,434,150)		Deferred charge on refunding	291,939		Total	(488,124)		<p>(488,124)</p>												
Bond issuance costs	654,087																									
Premium on bonds issued	(1,434,150)																									
Deferred charge on refunding	291,939																									
Total	(488,124)																									
<p>2,221,888 1,787,270</p> <hr/> <p>26,770,061</p> <hr/> <p>(3,671,737)</p>	<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	<p>6,226,888</p>																								
	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Principal payments on G.O. bonds</td> <td style="width: 10%; text-align: right;">460,000</td> <td style="width: 40%;"></td> </tr> <tr> <td>G.O. bonds defeased through payment to escrow agent</td> <td style="text-align: right;">4,005,000</td> <td></td> </tr> <tr> <td>Principal payment on energy conservation loan</td> <td style="text-align: right;">75,500</td> <td></td> </tr> <tr> <td>Capital leases</td> <td style="text-align: right;">1,686,388</td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">6,226,888</td> <td></td> </tr> </table>	Principal payments on G.O. bonds	460,000		G.O. bonds defeased through payment to escrow agent	4,005,000		Principal payment on energy conservation loan	75,500		Capital leases	1,686,388		Total	6,226,888		<p>6,226,888</p>									
Principal payments on G.O. bonds	460,000																									
G.O. bonds defeased through payment to escrow agent	4,005,000																									
Principal payment on energy conservation loan	75,500																									
Capital leases	1,686,388																									
Total	6,226,888																									
<p>(4,296,939) 47,990,000 1,434,150 32,243 44,388,141 (44,388,141)</p> <hr/> <p>45,159,454</p>	<p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	<p>(530,945)</p>																								
	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Intergovernmental payable</td> <td style="width: 10%; text-align: right;">(23,017)</td> <td style="width: 40%;"></td> </tr> <tr> <td>Compensated absences payable</td> <td style="text-align: right;">(188,740)</td> <td></td> </tr> <tr> <td>Accrued interest payable</td> <td style="text-align: right;">(189,236)</td> <td></td> </tr> <tr> <td>Annual accretion on capital appreciation bonds</td> <td style="text-align: right;">(135,067)</td> <td></td> </tr> <tr> <td>Amortization of bond issuance cost</td> <td style="text-align: right;">(17,703)</td> <td></td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">38,815</td> <td></td> </tr> <tr> <td>Amortization of deferred charge on refunding</td> <td style="text-align: right;">(15,997)</td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">(530,945)</td> <td></td> </tr> </table>	Intergovernmental payable	(23,017)		Compensated absences payable	(188,740)		Accrued interest payable	(189,236)		Annual accretion on capital appreciation bonds	(135,067)		Amortization of bond issuance cost	(17,703)		Amortization of bond premium	38,815		Amortization of deferred charge on refunding	(15,997)		Total	(530,945)		<p>(530,945)</p>
Intergovernmental payable	(23,017)																									
Compensated absences payable	(188,740)																									
Accrued interest payable	(189,236)																									
Annual accretion on capital appreciation bonds	(135,067)																									
Amortization of bond issuance cost	(17,703)																									
Amortization of bond premium	38,815																									
Amortization of deferred charge on refunding	(15,997)																									
Total	(530,945)																									
<p>41,487,717</p> <hr/> <p>(789,708)</p> <hr/> <p>\$ 40,698,009</p>	<p>Change in Net Assets of Governmental Activities</p>	<p>\$ 106,857</p>																								

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET (NON-GAAP) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 9,800,986	\$ 9,913,982	\$ 9,831,965	\$ (82,017)
Intergovernmental	7,703,139	7,791,949	7,709,929	(82,020)
Interest	335,764	339,635	375,067	35,432
Tuition and Fees	217,979	220,492	230,002	9,510
Miscellaneous	79,856	80,776	84,138	3,362
Total Revenues	18,137,724	18,346,834	18,231,101	(115,733)
Expenditures:				
Current:				
Instruction:				
Regular	8,414,183	8,524,271	8,490,016	34,255
Special	1,271,563	1,288,200	1,267,718	20,482
Support Services:				
Pupils	964,293	976,909	948,261	28,648
Instructional Staff	1,427,442	1,446,118	1,396,777	49,341
Board of Education	57,498	58,250	55,792	2,458
Administration	1,498,293	1,517,896	1,508,995	8,901
Fiscal	672,598	681,398	670,654	10,744
Business	105,381	106,760	105,118	1,642
Plant Operation and Maintenance	1,759,498	1,782,519	1,781,883	636
Pupil Transportation	1,437,848	1,456,660	1,455,332	1,328
Central	124,151	125,775	112,359	13,416
Non-Instructional Services	14,214	14,400	14,034	366
Extracurricular Activities	472,252	478,431	455,587	22,844
Capital Outlay	30,427	30,825	24,819	6,006
Debt Service:				
Principal Retirement	481,284	487,581	487,574	7
Interest and Fiscal Charges	11,850	12,005	12,005	-
Total Expenditures	18,742,775	18,987,998	18,786,924	201,074
Excess of Revenues Over(Under) Expenditures	(605,051)	(641,164)	(555,823)	85,341
Other Financing Sources (Uses):				
Proceeds from Sale of Debt	330,000	330,000	330,000	-
Proceeds from Sale Assets	-	32,243	32,243	-
Refund of Prior Year Expenditures	-	4,683	4,683	-
Transfers-Out	(62,145)	(62,958)	(55,006)	7,952
Total Other Financing Sources (Uses)	267,855	303,968	311,920	7,952
Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	(337,196)	(337,196)	(243,903)	93,293
Fund Balance at Beginning of Year	188,153	188,153	188,153	-
Prior Year Encumbrances Appropriated	149,043	149,043	149,043	-
Fund Balance at End of Year	\$ -	\$ -	\$ 93,293	\$ 93,293

See accompanying notes to the basic financial statements.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private Purpose Trust	Agency Funds
Assets:		
Equity in pooled cash and cash equivalents	\$ 15	\$ 60,651
Cash and Cash Equivalents:		
With Fiscal Agent	136,719	-
Total Assets	136,734	60,651
Liabilities:		
Due to students	-	60,651
Total Liabilities	-	\$ 60,651
Net Assets:		
Held in trust for scholarships	136,734	
Total Net Assets	\$ 136,734	

See accompanying notes to the basic financial statements.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST
JUNE 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Donations	\$ 8,311
Investment Earnings	<u>11,578</u>
Total Additions	<u>19,889</u>
Deductions:	
Payments in accordance with trust agreements	<u>5,500</u>
Total Deductions	<u>5,500</u>
Change in Net Assets	14,389
Net Assets Beginning of Year	<u>122,345</u>
Net Assets End of Year	<u><u>\$ 136,734</u></u>

See accompanying notes to the basic financial statements.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Sugarcreek 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 first official body designated as the Sugarcreek Local School District was formed sometime prior to 1930.

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the District's instructional/support facilities staffed by a full-time equivalent staff of 280 employees who provide services to 2,761 students and other community members.

Reporting Entity

The reporting entity is comprised 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 and departments, not legally separate from the School District, which provide various services including instruction, student guidance, extracurricular activities, educational media and care and upkeep of grounds and buildings. The operation of each of these activities is directly controlled by the Board of Education.

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 body 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 for which the School District approves the budget, the issuance of debt or the levying of taxes.

The School District does not have any component units.

The District is associated with four organizations, which are defined as jointly governed. These organizations include the Miami Valley Educational Computer Association, the Southwestern Ohio Educational Purchasing Cooperative, the Greene County Career Center, and the Bellbrook/Sugarcreek Education Foundation. These organizations are presented in Note 18 to the basic financial statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

A. Basis Of Presentation

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities.

Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the repayment of, the School District’s general obligation debt, including the school improvement bonds previously approved by voters within the School District’s boundaries.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for financial resources, specifically property and other local taxes generated by the District’s permanent improvement levy, to be used to maintain the School District’s facilities, as well as provide for major equipment and instructional material purchases.

Building Fund – The Building Fund is being used to account for all transactions related to the construction of the new middle school building. To provide financing for this project, the School District issued bond, the proceeds of which (except for premium and accrued interest) were paid into this fund.

The other governmental funds of the School District account for grants and other resources, and capital projects of the School District whose uses are 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. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District’s own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has various funds established to provide scholarships to its students that are classified as private-purpose trust funds. Funds used to account for the activity of the numerous student managed activities within the School District are classified as agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed to be both measurable and available: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

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

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by the employee. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

The accrual basis of accounting utilized on the government-wide financial statements and by private purpose trust funds recognizes revenues when they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported as an expense with a like amount reported as donated commodities revenue.

E. Budget Data

With the exception of the Miscellaneous Federal Grants Special Revenue Fund, the fund used to account for funds and services provided by the County Educational Service Center on behalf of the School District, and the agency funds, all funds are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount 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 Board has established the legal level of control at the fund level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

F. Cash, Cash Equivalents, and Investments

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

During fiscal year 2004, investments consisted of repurchase agreements and a U.S. Government agency managed fund.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

The School District had invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The School District did not have any funds on deposit with STAR Ohio on June 30, 2004.

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

The School District has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$375,067, which includes the General Fund's allocation as well as the allocations of all funds not specified in the Board's resolution. Interest was also recorded in the Debt Service Fund totaling \$18,677 and also in non-major governmental funds and private purpose trust funds in the amounts of \$71 and \$11,578, respectively.

G. Estimates

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

H. Capital Assets and Depreciation

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the School District revised its capitalization threshold from \$1,500 to \$2,500. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also not capitalized.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50-20 years
Equipment	5-20 years
Vehicles	8-13 years

I. Interfund Activity

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned when both of these conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

A liability for sick leave is accrued using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated sick leave for all employees after ten years of current service with the School District.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund statements.

K. Accrued Liabilities and Long-Term Obligations

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

M. Reservations and Designations of Fund Balance

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances and property taxes.

NOTE 3 – CHANGE IN ACCOUNTING ESTIMATES

For fiscal year 2004, the School District revised its capitalization threshold for capital assets from the \$1,500 previously used to \$2,500. In addition, the School District changed its estimate of the useful lives of school buses from 8 years to 13 years. These changes in accounting estimates resulted in the amount reported for general capital assets at the beginning of the year to be revised to \$16,790,176 from the amount previously reported at June 30, 2003 of \$16,394,863. This revision increased the governmental activities net assets reported at June 30, 2003 from the \$5,583,786 to \$5,979,099.

NOTE 4 - ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2004:

	<u>Deficit Equity</u>
General Fund	\$ 1,199,591
Special Revenue Funds:	
Title I	16,129
Title VI	545
Permanent Improvement Fund	276,937

The deficits in these funds resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2004. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

	<u>Net Change in Fund Balance</u> <u>General Fund</u>	
GAAP Basis		\$ (166,488)
Revenue Accruals		(151,694)
Expenditure Accruals		(149,990)
Note Proceeds		330,000
Transfers		5,052
Encumbrances		<u>(110,783)</u>
Budget Basis		<u>\$(243,903)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the School District into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the District. Such monies must be maintained either as cash in the School Treasury, in depository accounts payable, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two-year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" monies, 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 the certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Protection of the 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 money deposited with the institution.

Interim monies may be invested in the following obligations:

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;

Bonds, notes, debentures, or 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 governmental agencies or instrumentalities;

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;

Bonds and other obligations of the State of Ohio;

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;

The State Treasurer's investment pool (STAR Ohio);

Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched-to a specific obligation or debt of the 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.

Deposits

At fiscal year end, the carrying amount of the School District deposit was \$695,681 and the bank balance was \$833,101. Of the bank balance \$361,310 was covered by federal deposit insurance and the remaining amounts were uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Investments

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name

	Category 2	Category 3	Carrying Amount	Fair Value
Federal Home Loan Bank Notes	\$18,698,281	\$ -	\$18,698,281	\$18,698,281
Federal Home Loan Mortgage Corporation Notes	9,477,688	-	9,477,688	9,477,688
Federal National Mortgage Notes	12,622,046	-	12,622,046	12,622,046
Repurchase Agreements	-	862,583	862,583	862,583
Total	\$40,798,015	\$ 862,583	41,660,598	\$41,660,598

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reported Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
	<u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 42,359,129	\$ -
Cash on Hand	(2,850)	-
Investments of the Cash Management Pool:		
Repurchase agreements	(862,583)	862,583
Federal Home Loan Bank Notes	(18,698,281)	18,698,281
Federal National Mortgage Notes	(12,622,046)	12,622,046
Federal Home Loan Mortgage Corp Notes	<u>(9,477,688)</u>	<u>9,477,688</u>
GASB Statement 3	\$ <u>695,681</u>	\$ <u>41,660,598</u>

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State Law at 35 percent of appraised market value. All property is required to be reevaluated every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Sugarcreek Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The full tax rate for all District operations for the year ended June 30, 2004 was \$73.25 per \$1,000 of assessed value. The assessed values upon which the fiscal year 2004 taxes were collected are as follows:

	<u>2004 First Half Collections</u>	<u>2003 Second Half Collections</u>
Agricultural/residential		
And other real estate	\$ 379,227,120	\$ 370,848,680
Public utility personal	14,549,950	14,549,950
Tangible personal property	<u>9,096,142</u>	<u>9,096,142</u>
 Total	 <u>\$ 402,873,212</u>	 <u>\$ 394,494,772</u>

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of June 30, 2004. Although total property tax collections for the next year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004 was recognized as revenue.

The amount available as an advance at June 30 was \$708,495 in the General Fund, \$242,793 in the Bond Retirement Debt Service Fund and \$47,268 in the Permanent Improvement Capital Projects Fund. These amounts have been set aside as a reserve of fund balance.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of current and delinquent property taxes, accounts (rent and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. At June 30, 2004 the only intergovernmental receivables recorded in the Food Service special revenue fund in the amount of \$8,680 for school lunches provided in May 2004 which qualify for federal and state reimbursement.

NOTE 9 – CAPITAL ASSETS

The June 30, 2003 beginning balance of the School District's capital assets and the related accumulated depreciation have been adjusted to reflect the School District's change in capitalization threshold and the useful lives used to calculate depreciation on school busses. A summary of these adjustments is as follows:

General Capital Assets	Balance at <u>June 30, 2003</u>	Change in <u>Estimate</u>	Adjusted Balance at <u>June 30, 2003</u>
<u>Capital Assets</u>			
Land	\$ 3,432,055	\$ -	\$ 3,432,055
Land Improvements	1,297,808	(13,103)	1,284,705
Buildings and Improvements	16,868,623	(11,325)	16,857,298
Equipment	2,290,659	21,974	2,312,633
Vehicles	<u>2,260,518</u>	<u>(88,600)</u>	<u>2,171,918</u>
Total	26,149,663	(91,054)	26,058,609
<u>Accumulated Depreciation</u>			
Land Improvements	(661,399)	13,269	(648,130)
Buildings and Improvements	(5,704,794)	6,454	(5,698,340)
Equipment	(1,752,508)	259,394	(1,493,114)
Vehicles	<u>(1,636,099)</u>	<u>207,250</u>	<u>(1,428,849)</u>
Total	<u>(9,754,800)</u>	<u>486,367</u>	<u>(9,268,433)</u>
Total Capital Assets, Net	<u>\$ 16,394,863</u>	<u>\$ 395,313</u>	<u>\$ 16,790,176</u>

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

	Balance 6/30/03	Additions	Deductions	Balance 6/30/04
<u>Capital Assets, not being depreciated</u>				
Land	\$ 3,432,055	\$ -	\$ -	\$ 3,432,055
Construction in Progress	-	1,707,528	-	1,707,528
Total Non-depreciable Capital Assets	<u>3,432,055</u>	<u>1,707,528</u>	<u>-</u>	<u>5,139,583</u>
<u>Capital Assets, being depreciated</u>				
Land Improvements	1,284,705	-	-	1,284,705
Buildings and Improvements	16,857,298	23,766	-	16,881,064
Furniture and Equipment	2,312,633	76,122	(6,216)	2,382,539
Vehicles	2,171,918	333,645	-	2,505,563
	<u>22,626,554</u>	<u>433,533</u>	<u>(6,216)</u>	<u>23,053,871</u>
<u>Less: Accumulated Depreciation</u>				
Land Improvements	(648,130)	(46,321)	-	(694,451)
Buildings and Improvements	(5,698,340)	(457,745)	-	(6,156,085)
Furniture and Equipment	(1,493,114)	(109,824)	6,216	(1,596,722)
Vehicles	(1,428,849)	(121,285)	-	(1,550,134)
	<u>(9,268,433)</u>	<u>(735,175) *</u>	<u>6,216</u>	<u>(9,997,392)</u>
Depreciable Capital Assets, Net	<u>13,358,121</u>	<u>(301,642)</u>	<u>-</u>	<u>13,056,479</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 16,790,176</u>	<u>\$ 1,405,886</u>	<u>\$ -</u>	<u>\$ 18,196,062</u>

* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 62,161
Support Services:	
Instructional Support	1,068
Administration	8,081
Operation and Maintenance of Plant	15,221
Pupil Transportation	138,785
Operation of Non-Instructional Services	16,960
Extracurricular Activities	38,445
	<u>280,721</u>
Unallocated Depreciation	454,454
Total Depreciation Expense	<u>\$ 735,175</u>

Unallocated depreciation is depreciation of the individual school buildings throughout the District which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, thefts-of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004 the School District contracted with Indiana Insurance Company for building and business property insurance. This policy has a limit of insurance in the amount of \$50 million for property and a \$2,500 deductible. Boiler and Crime are included in the policy. Fleet insurance has a \$1 million limit of liability. General liability insurance is under Selective of South Carolina Insurance Company and has a \$1 million per occurrence and \$3 million aggregate limitation. The superintendent, treasurer and board president are all bonded separately. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District is a member of the Southwestern Ohio Educational Purchasing Cooperative (SOEPC). The cooperative contracts with Accordia, Inc. to provide an insurance purchasing pool for workers compensation. The intent of the pool is to achieve the benefit of a reduced premium for the School District by virtue of its grouping a representation with other participants in the pool. 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 pool. Each participant pays its workers compensation premium to the State based on the rate for the pool rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the pool. A participant will then either receive money from or be required to contribute to the pool. This equity pooling arrangement insures that each participant shares equally in the overall performance of the pool. Participation in the pool is limited to school districts that can meet the pool's selection criteria. Accordia, Inc. provides administrative, cost control and actuarial services to the SOEPC.

The School District has elected to provide employee medical benefits through Anthem PPO. The board picks up ninety percent of the monthly premium for all employees. Classified employees working less than seven hours a day, and certified employees working less than seven and a half hours a day, pay a prorated share of the monthly premium based on the number of hours worked. Dental benefits are provided through CoreSource with the Board picking-up the total cost for employees that work seven hours a day or more. The School District provides life insurance to employees through CoreSource.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$432,198, \$364,198 and \$380,020 respectively; 57.0 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,257,052, \$1,151,843, and \$1,172,656 respectively; 97.7 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and combined plans for fiscal year 2004 were \$16,078 for the School District and \$38,632 made by plan members.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 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 SERS/STRS. As of June 30, 2004, one member of the Board of Education has elected social security. The School District's liability is 6.2 percent of wages paid.

NOTE 12 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004. For the School District, this amount equaled \$89,789 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more 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 on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2004, the minimum pay has been established at \$25,400. For the School, the amount to fund health care benefits, including the surcharge, was \$213,026 for fiscal year 2004.

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 13 – OTHER EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

District classified employees earn vacation leave at varying rates based upon negotiated agreements and State laws. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation leave for the District as a whole amounted to \$99,955 at June 30, 2004.

Accumulated Unpaid Sick Leave

District employees may accumulate sick leave. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum of sixty days for certified and classified employees. The total obligation for sick leave accrual for the District as a whole as of June 30, 2004 was \$894,456.

Compensatory Leave

Certain employees are allowed to accumulate hours for time worked up to a maximum of 240 hours. The employee has the option of taking the hours as time off or as paid leave. In the case of death or retirement an employee (or his estate) is paid for unused compensatory leave. The total obligation for compensatory leave for the District as a whole amounted to \$29,458 at June 30, 2004.

NOTE 14 - LONG-TERM OBLIGATIONS

Activity of the School District's long-term obligations at June 30, 2004 was as follows:

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Due within One Year
General Obligation Bonds:					
1994 School Construction:					
Current Interest 2.45-5.15%	\$4,945,000	\$ -	\$4,465,000	\$ 480,000	\$ 480,000
Capital Appreciation 5-5.3%	1,516,959	110,446	-	1,627,405	-
2003 Multi-purpose Bonds					
Current Interest 2-5.15%	-	47,350,000	-	47,350,000	120,000
Capital Appreciation 4.13-4.23%	-	664,621	-	664,621	-
Deferred Amounts:					
Bond Premium	-	1,434,150	38,815	1,395,335	-
Deferred Amount on Refunding	-	(291,939)	(15,997)	(275,942)	-
Total General Obligation Bonds	6,461,959	49,267,278	4,487,818	51,241,419	600,000
Energy Conservation Loan Payable	226,500	-	75,500	151,000	75,500
Compensated Absences	835,129	197,658	8,918	1,023,869	25,000
Capital Lease Obligation	2,480,605	-	1,686,388	794,217	215,721
Intergovernmental Payable	121,216	144,233	121,216	144,233	144,233
Total General Long-Term Obligations	\$10,125,409	\$49,609,169	\$6,379,840	\$53,354,738	\$1,060,454

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

General Obligation Bonds

The School District's general obligation bond issues will be paid through the debt service fund from property taxes collected by the County Auditor. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The District issued general obligation debt for the following purposes:

- In 2003, nearly \$48 million of general obligation bonds was issued to 1) provide \$43,985,000 for the construction of a new middle school building and 2) advance refund \$4,005,000 of general obligation bonds issued in 1994. These bonds include current interest bonds and capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2013 and 2014. The maturity amount of the capital appreciation bonds is \$1.2 million. For fiscal year 2004, \$24,621 was accreted for a total bond value of \$664,621.
- Approximately \$10 million issued in fiscal year 1994 and maturing in fiscal year 2016, for the construction of a high school building. These bonds include current interest bonds and capital appreciation bonds. The capital appreciation bonds will mature in 2005 through 2008. The maturity amount of the bonds is \$2,120,000. For fiscal year 2004, \$110,446 was accreted for a total bond value of \$1,627,405.

Principal and interest requirements to retire the District's long-term general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2005	\$ 600,000	\$ 2,250,821	\$ 2,850,821
2006	1,176,619	2,279,952	3,456,571
2007	1,375,960	2,296,805	3,672,765
2008	1,461,929	2,304,663	3,766,592
2009	1,562,897	2,265,716	3,828,613
2010 – 14	5,574,621	10,691,854	16,266,475
2015 – 19	5,935,000	9,031,785	14,966,785
2020 – 24	8,190,000	7,353,013	15,543,013
2025 – 29	13,205,000	4,581,375	17,786,375
2030 – 32	11,040,000	857,250	11,897,250
Total	<u>\$50,122,026</u>	<u>\$43,913,234</u>	<u>\$94,035,260</u>

Advance Refunding

The School District issued \$4,005,000 of general obligation bonds to provide resources to purchase U.S. Government securities that were placed, along with premiums received associated with the sale of the bonds, in an irrevocable trust for the purpose of generating resources for future debt service payments of \$4,005,000 of the 1994 School Construction general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability associated with these bonds has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$291,939. This amount is being netted against the new net and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$151,122 and resulted in an economic gain of \$27,274.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Energy Conservation Loan Payable

During fiscal year 1996, the School District issued \$775,000 in bonds to provide funds for energy conservation improvements. Savings realized in the general fund operations due to the energy conservation measures will be used for the retirement of these obligations. Interest is payable in semi-annual installments at a rate of 5.95% a year through fiscal year 2005.

Principal and interest requirements to retire the long-term energy conservation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2005	75,500	8,004	83,504
2006	75,500	4,002	79,502
Total	<u>\$ 151,000</u>	<u>\$ 12,006</u>	<u>\$ 163,006</u>

Other Long-Term Obligations

The intergovernmental payable represents the long-term portion of the pension obligation payable to the School Employees Retirement System. Compensated absences represent the long-term portion of the accrued liability associated with sick and vacation leave. These items will be repaid from the funds from which the employees work to whom the liability is associated with or the General Fund if no such funds are available. The capital lease obligations are being repaid with revenues from the permanent improvement capital project fund.

Debt Limitations

The School District's voted legal debt margin, as determined under Ohio Revised Code Section 133.06(B), was \$7.4 million and the unvoted debt margin was \$402,873 at June 30, 2004.

NOTE 15 – SHORT-TERM OBLIGATION

The following is a summary of the note activity for the District at June 30, 2004:

	Balance 6/30/03	Increase	Decrease	Balance 6/30/04
1998 Tax Anticipation Note	\$ 290,000	\$ -	\$ 290,000	\$ -
2003 Bus Facility Note	330,000	-	330,000	-
2004 Bus Facility Note	-	330,000	-	330,000
2003 Bond Anticipation Note	-	43,985,000	43,985,000	-
Total	<u>\$ 620,000</u>	<u>\$ 44,315,000</u>	<u>\$ 44,605,000</u>	<u>\$ 330,000</u>

The bus facility notes were originally issued in fiscal year 2002 to finance the purchase of a new transportation facility and have subsequently been rolled over. These notes are recorded in the Permanent Improvement capital projects fund. The 2003 bond anticipation note was issued July 2003 to provide financing for the construction of a new middle school building. These notes were retired in October 2003 when the School District issued the multi-purpose general obligation bonds.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

During prior fiscal years, the School District entered into several capitalized leases for the purchase of land for a new school facility, a transportation center, and various pieces of equipment. These leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital outlay expenditure was recorded in the permanent improvement fund. Capital lease payments will be reflected as debt service expenditures in the basic financial statements for the governmental funds.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$2,277,771, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was split between long-term liabilities due within a year and long-term liabilities due within more than one year on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$1,686,388.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

<u>Fiscal Year Ending June 30,</u>	<u>General Long- Term Debt</u>
2005	\$ 245,761
2006	96,383
2007	96,383
2008	96,383
2009	96,383
2010 - 2012	<u>289,149</u>
Total Minimum Lease Payments	920,442
Less: Amount Representing Interest	<u>(126,225)</u>
Present Value of Minimum Lease Payments	<u>\$ 794,217</u>

NOTE 17 - INTERFUND ACTIVITY

During fiscal year 2003, the School District provided temporary operating cash to the Title VI grant special revenue fund in the amount of \$ 545, and was been recorded as an interfund receivable in the General Fund. These funds were anticipated to be repaid once grant receipts are received in fiscal year 2004 however no such grant receipts were received as of June 30, 2004. Management will review the status of this transaction during fiscal year 2005 to determine if the funds will be received to repay the General Fund or if the advance of funds should be made permanent.

In addition, the School District transferred funds for various purposes. A schedule of these transfers is presented below.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund:	Food Service Fund	\$ 55,006
	Permanent Improvement Fund	5,052
Bond Retirement Fund	Building Fund	<u>44,328,083</u>
	Total Transfers Out/In	<u>\$ 44,388,141</u>

The transfer from the General Fund to the Food Service Fund was to provide operating resources for the operation of the program. The transfer from the General Fund to the Permanent Improvement Fund was to account for the payment of interest related to short-term debt recorded in the Permanent Improvement Fund but the payment General Fund. The transfer from the Bond Retirement Fund to the Building Fund was for the \$44 million bond anticipation note retired with proceeds paid into the bond retirement fund but the bond anticipation note payable was recorded in the building capital project fund.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association

The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$37,056 for services provided during the year. Financial information can be obtained from Gary Bosserman, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Cooperative

The School District is a member of the Southwestern Ohio Educational Purchasing Cooperative (SOEPC). The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools within geographical boundaries as defined by the SOEPC and to serve as a resource to member districts on matters related to business operations. The SOEPC elects one of its members as Chairperson and another as Vice-Chairperson. An Executive Committee is comprised of eleven members who include the Chairperson and Vice-Chairperson and a representative from the Fiscal Agent. Each new member pays an initiation fee in addition to the annual membership fee and other appropriate assessments.

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Greene County Career Center

The Greene County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Greene County Career Center, 2960 West Enon Road, Xenia, Ohio 45385-9545.

Bellbrook/Sugarcreek Education Foundation

The Bellbrook/Sugarcreek Education Foundation is a community-based, unincorporated, non-profit organization established for the exclusive purposes of promoting the quality of schools and educational programs in the Sugarcreek Local School District and funding college scholarships for graduates of the Sugarcreek Local School District. A seven member Board of Trustees govern the Foundation, consisting of the School District's Superintendent and Treasurer, an appointed member of the School District's Board of Education and four persons appointed by the Financial Advisory Committee of the School District. The Dayton Foundation maintains all assets of the Foundation in trust and the Board of Trustees must approve any disbursement of funds.

NOTE 19 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Litigation

The School District's attorney estimates that any potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

NOTE 20 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

SUGARCREEK LOCAL SCHOOL DISTRICT

Greene County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 21 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. Amounts not spent by year-end or reduced by offsetting credits must be held in cash at year-end and carried forward to be used for the same purpose in future years. Excess of offsets and qualifying disbursements over the set-aside requirement during the year for textbooks and other instructional materials may carry forward to the next year to reduce the set-aside requirement of future years.

	<u>Textbooks</u>	<u>Capital Spending</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2003	\$ (766,210)	\$ -	\$ (766,210)
Current Year Set-aside Requirement	359,850	359,850	719,700
Qualifying Disbursements	<u>(541,205)</u>	<u>(491,692)</u>	<u>(1,032,897)</u>
Total	<u>\$ (947,565)</u>	<u>\$ (131,842)</u>	<u>\$(1,079,407)</u>
Balance Carried forward to FY 2005	<u>\$ (947,565)</u>	<u>\$ -</u>	

Although the School District had qualifying disbursements during the year that reduced the set-aside below zero for capital acquisition, the extra amounts may not be used to reduce the set-aside requirements of future years.

Although legislation enacted eliminated the requirement that school districts maintain a budget stabilization account, the State of Ohio placed restrictions on the type of services and the items that school districts may spend the Bureau of Workers' Compensation (BWC) rebates previously recorded in the budget stabilization account. Therefore, the funds related to the BWC rebates, \$45,306, continue to be reported as a restricted asset in the general fund with a corresponding amount reported as a reservation of fund balance.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
<i>Nutrition Cluster</i>						
Food Donation	10.550	N/A		\$19,008		\$19,008
National School Lunch Program	10.555	LL-P4 2003 LL-P4 2004	\$8,109 43,413		\$8,109 43,413	
Total National School Lunch Program			<u>51,522</u>		<u>51,522</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>51,522</u>	<u>19,008</u>	<u>51,522</u>	<u>19,008</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Education Agencies	84.010	C1-S1 2004	157,705		148,991	
<i>Administered by Greene County Educational Service Center on behalf of the District</i>						
Title I Grants to Local Education Agencies		N/A	1,309		1,309	
Total Title I Grants to Local Education Agencies			<u>159,014</u>		<u>150,300</u>	
<i>Special Education Cluster:</i>						
<i>Passed Through Ohio Department of Education</i>						
Special Education Grants to States	84.027	6B-SF 2004-P	280,326		280,326	
Special Education - Preschool Grant	84.173	PG-S1-2004	16,334		16,334	
<i>Administered by Greene County Educational Service Center on behalf of the District</i>						
Special Education - Preschool Grant		N/A	1,062		1,062	
Total State and Local Special Education - Preschool Grants			<u>17,396</u>		<u>17,396</u>	
Total Special Education Cluster			297,722		297,722	
<i>Administered by Greene County Educational Service Center on behalf of the District</i>						
Safe and Drug-Free Schools and Communities - National Program	84.184	N/A	2,423		2,423	
<i>Passed Through Ohio Department of Education</i>						
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1 2004	6,889		6,896	
Total State and Local Drug Free			<u>9,312</u>		<u>9,319</u>	
State Grants for Innovative Programs	84.298	C2-S1 2004	14,371		14,371	
Education Technology State Grants	84.318	TJ-S1 2004	4,269		4,269	
Assistive Technology Infusion	84.352	AT-S3 2002	(1,134)		454	
Improving Teacher Quality State Grants	84.367	TR-S1 2004	52,431		52,029	
Total United States Department of Education			<u>535,985</u>		<u>528,464</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Greene County Educational Service Center</i>						
Medical Assistance Program	93.778	N/A	5,017		5,017	
Total Federal Assistance			<u>\$592,524</u>	<u>\$19,008</u>	<u>\$585,003</u>	<u>\$19,008</u>

The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Statement.

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Sugarcreek Local School District
Greene County
60 East South Street
Bellbrook, Ohio 45305

To the Board of Education:

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

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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 30, 2005.

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 opinions 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 certain 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 March 30, 2005.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Sugarcreek Local School District
Greene County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 30, 2005



Auditor of State Betty Montgomery

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

Sugarcreek Local School District
Greene County
60 East South Street
Bellbrook, Ohio 45305

To the Board of Education:

Compliance

We have audited the compliance of Sugarcreek Local School District, Greene County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

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

Internal Control Over Compliance

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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

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

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

Betty Montgomery
Auditor of State

March 30, 2005

**SUGARCREEK LOCAL SCHOOL DISTRICT
GREENE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA # 84.027 & 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SUGARCREEK LOCAL SCHOOL DISTRICT

GREENE 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
MAY 10, 2005**