

**DAWSON-BRYANT LOCAL
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS



**Auditor of State
Betty Montgomery**

Board of Trustees
Dawson-Bryant Local School District

We have reviewed the Independent Auditor's Report of the Dawson-Bryant Local School District, Lawrence County, prepared by Kelley, Galloway & Company, PSC for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 21, 2005

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Kelley,
Galloway &
Company, PSC

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Dawson-Bryant Local School District
222 Lane Street
Coal Grove, Ohio 45638

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dawson-Bryant Local School District, (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 foregoing table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 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.

The Management's Discussion and Analysis on pages 4 through 10 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The schedule of expenditures of federal awards contained on pages 40 and 41 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kelley, Bolloway + Company, PSC

April 29, 2005

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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

Financial Highlights

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

- Net assets of governmental activities increased \$1,772,966.
- General revenues accounted for \$8,990,981 or 74% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,121,828 or 26% of total revenues of \$12,112,809.
- Total assets of governmental activities increased \$1,513,419. Equity in Pooled Cash and Cash Equivalents increased \$3,298,784.
- The School District had \$10,339,843 in expenses related to governmental activities; only \$3,121,828 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$8,990,981 were adequate to provide for these programs.
- The School District only has two major funds; the General Fund and the Classroom Facilities Capital Project Fund. The General Fund had \$9,321,739 in revenues and \$7,108,165 in expenditures. The General Fund's balance increased \$2,123,011. The Classroom Facilities Fund had \$1,435,697 in revenues and \$306,051 in expenditures. The Classroom Facilities Fund balance increased by \$1,323,646.

Using this Annual Financial Report

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

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

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as Governmental Activities.

- Governmental Activities - All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the classroom facilities capital project fund.

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

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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 2003 compared to 2004.

Table 1
 Net Assets

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2004 | 2003 |
| Assets | | |
| Current and Other Assets | \$21,349,088 | \$19,903,807 |
| Capital Assets | <u>12,774,560</u> | <u>12,706,422</u> |
| Total Assets | <u>34,123,648</u> | <u>32,610,229</u> |
| Liabilities | | |
| Long-term Liabilities | 2,237,080 | 2,280,019 |
| Other Liabilities | <u>2,545,183</u> | <u>2,761,791</u> |
| Total Liabilities | <u>4,782,263</u> | <u>5,041,810</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 10,994,560 | 10,866,422 |
| Restricted | 15,051,847 | 15,419,187 |
| Unrestricted | <u>3,294,978</u> | <u>1,282,810</u> |
| Total Net Assets | <u>\$29,341,385</u> | <u>\$27,568,419</u> |

Total assets increased \$1,513,419. Equity in pooled cash and cash equivalents increased \$3,298,784. Capital assets increased by \$68,138. The increase in cash comes from additional Parity Aid to low wealth school districts, as well as an increase in property tax revenues. The increase in revenues was not matched by additional expenses.

Total liabilities decreased \$259,547.

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, and comparisons to fiscal year 2003.

Table 2
 Changes in Net Assets

| | Governmental Activities | |
|---|-------------------------|-------------------|
| | 2004 | 2003 |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$469,020 | \$504,982 |
| Operating Grants, Contributions and Interest | 2,451,697 | 2,177,534 |
| Capital Grants and Contributions | 201,111 | 341,125 |
| Total Program Revenues | 3,121,828 | 3,023,641 |
| General Revenues | | |
| Property Taxes | 1,233,999 | 1,193,307 |
| Grants and Entitlements | 7,584,704 | 6,665,462 |
| Gain on Sale of Capital Assets | 1,250 | 0 |
| Investment Earnings | 50,411 | 60,359 |
| Miscellaneous | 120,617 | 32,597 |
| Total General Revenues | 8,990,981 | 7,951,725 |
| Total Revenues | 12,112,809 | 10,975,366 |
| Expenses | | |
| Instruction: | | |
| Regular | 4,358,420 | 4,620,633 |
| Special | 1,151,781 | 1,725,679 |
| Vocational | 34,556 | 565 |
| Adult/Continuing | 4,516 | 0 |
| Support Services: | | |
| Pupil | 322,470 | 253,841 |
| Instructional Staff | 777,706 | 436,456 |
| Board of Education | 17,716 | 15,305 |
| Administration | 680,257 | 527,157 |
| Fiscal | 238,223 | 165,333 |
| Business | 14,360 | 0 |
| Operation and Maintenance of Plant | 977,763 | 879,729 |
| Pupil Transportation | 589,763 | 487,828 |
| Central | 149,061 | 0 |
| Operation of Non-Instructional Services: | | |
| Food Service Operations | 557,929 | 531,509 |
| Other | 11,018 | 7,581 |
| Extracurricular Activities | 341,193 | 261,980 |
| Interest and Fiscal Charges | 113,111 | 116,418 |
| Total Expenses | 10,339,843 | 10,030,014 |
| Increase in Net Assets | \$1,772,966 | \$945,352 |

General revenues increased primarily due to revenue for an Ohio School Facilities Commission grant to build a new elementary school.

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Property taxes made up approximately 10% of revenues for governmental activities for the Dawson-Bryant Local School District in fiscal year 2004, indicating a heavy reliance on general revenues other than property taxes.

Instruction comprises approximately 54% of governmental program expenses.

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

Table 3
Governmental Activities

| | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> | Total Cost of Services <u>2003</u> | Net Cost of Services <u>2003</u> |
|--|--|--|--|--|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$4,358,420 | \$3,678,728 | \$4,620,633 | \$3,849,118 |
| Special | 1,151,781 | (103,146) | 1,725,679 | 468,254 |
| Vocational | 34,556 | (19,725) | 565 | 565 |
| Adult/Continuing | 4,516 | 4,516 | 0 | (50,095) |
| Support Services: | | | | |
| Pupil | 322,470 | 292,652 | 253,841 | 239,125 |
| Instructional Staff | 777,706 | 371,414 | 436,456 | 278,805 |
| Board of Education | 17,716 | 17,716 | 15,305 | 15,305 |
| Administration | 680,257 | 677,230 | 527,157 | 499,388 |
| Fiscal | 238,223 | 238,223 | 165,333 | 165,333 |
| Business | 14,360 | 14,360 | 0 | 0 |
| Operation and Maintenance of Plant | 977,763 | 977,763 | 879,729 | 879,729 |
| Pupil Transportation | 589,763 | 567,465 | 487,828 | 429,130 |
| Central | 149,061 | 121,099 | 0 | 0 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 557,929 | 70,401 | 531,509 | (20,491) |
| Other | 11,018 | 2,459 | 7,581 | 1,064 |
| Extracurricular Activities | 341,193 | 193,749 | 261,980 | 134,725 |
| Interest and Fiscal Charges | 113,111 | 113,111 | 116,418 | 116,418 |
| Total | <u>\$10,339,843</u> | <u>\$7,218,015</u> | <u>\$10,030,014</u> | <u>\$7,006,373</u> |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 64% of instruction activities were supported through taxes and other general revenues.

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,088,416 and expenditures of \$10,463,226. The School District is currently able to operate without additional operating levies and is able to pay bills in a timely manner.

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.

During the course of fiscal 2004, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$9,395,838, above original estimates of \$8,101,898. The \$1,293,940 difference was due to conservative budgeting. Original appropriations of \$8,526,320 were decreased to \$7,460,649, due to conservative spending.

The School District's ending unobligated general fund balance was \$4,405,817.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$12,774,560 invested in land, buildings, furniture and equipment, vehicles, and construction in progress. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Depreciation)

| | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|---------------------|
| | <u>2004</u> | <u>2003</u> |
| Land and Land Improvements | \$368,134 | \$174,634 |
| Buildings and Improvements | 11,184,680 | 11,403,307 |
| Furniture and Equipment | 326,650 | 448,357 |
| Vehicles | 266,262 | 301,685 |
| Construction in Progress | 628,834 | 378,439 |
| Totals | <u>\$12,774,560</u> | <u>\$12,706,422</u> |

See Note 8 for more information on Capital Assets.

Dawson-Bryant Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Debt

At June 30, 2004, the School District had \$1,780,000 in general obligation bonds outstanding. The bonds were originally issued in 1995 to meet the matching requirement for a classroom facility project involving the Ohio School Facilities Commission. No debt was required to be issued to meet the matching requirement for the current classroom facility project.

See Note 14 for more information on Debt.

Economic Factors

Over the past several years the School District has remained in a stable financial position and has increased its cash balance carry-over the last 10 years. The School District's assessed values upon which taxes are collected is \$48,000,000. Another indication that the District cannot rely on property tax revenue to fully support its programs is that each mill of a tax levy would generate \$48,000, an increase in total revenue of about two-tenths of a percent.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability and to ensure that significant outlays may be made in the future to address our facility needs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jim Tordiff, Treasurer at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

Dawson-Bryant Local School District*Statement of Net Assets*

June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$8,985,191 |
| Accounts Receivable | 5,502 |
| Property Taxes Receivable | 1,253,278 |
| Intergovernmental Receivable | 11,028,756 |
| Prepaid Items | 68,610 |
| Materials and Supplies Inventory | 7,751 |
| Nondepreciable Capital Assets | 996,968 |
| Depreciable Capital Assets, Net | <u>11,777,592</u> |
| <i>Total Assets</i> | <u>34,123,648</u> |
| Liabilities | |
| Accounts Payable | 150,670 |
| Accrued Wages and Benefits Payable | 1,036,249 |
| Accrued Interest Payable | 9,319 |
| Vacation Benefits Payable | 5,974 |
| Matured Compensated Absences Payable | 12,664 |
| Deferred Revenue | 961,582 |
| Intergovernmental Payable | 368,725 |
| Long-Term Liabilities: | |
| Due within One Year | 95,243 |
| Due in More than One Year | <u>2,141,837</u> |
| <i>Total Liabilities</i> | <u>4,782,263</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 10,994,560 |
| Restricted for: | |
| Other Purposes | 1,055,445 |
| Budget Stabilization | 57,745 |
| Capital Projects | 13,288,261 |
| Debt Service | 650,396 |
| Unrestricted | <u>3,294,978</u> |
| <i>Total Net Assets</i> | <u><u>\$29,341,385</u></u> |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

| | Expenses | Program Revenues | | | Net (Expense) |
|---|---------------------|----------------------|--|----------------------------------|-----------------------------------|
| | | Charges for Services | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | | Governmental Activities |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$4,358,420 | \$1,151 | \$522,054 | \$156,487 | (\$3,678,728) |
| Special | 1,151,781 | - | 1,254,927 | - | 103,146 |
| Vocational | 34,556 | - | 54,281 | - | 19,725 |
| Adult/Continuing | 4,516 | - | - | - | (4,516) |
| Support Services: | | | | | |
| Pupil | 322,470 | - | 29,818 | - | (292,652) |
| Instructional Staff | 777,706 | 130,740 | 261,688 | 13,864 | (371,414) |
| Board of Education | 17,716 | - | - | - | (17,716) |
| Administration | 680,257 | - | 3,027 | - | (677,230) |
| Fiscal | 238,223 | - | - | - | (238,223) |
| Business | 14,360 | - | - | - | (14,360) |
| Operation and Maintenance of Plant | 977,763 | - | - | - | (977,763) |
| Pupil Transportation | 589,763 | - | - | 22,298 | (567,465) |
| Central | 149,061 | - | 19,500 | 8,462 | (121,099) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 557,929 | 207,497 | 280,031 | - | (70,401) |
| Community Service | 11,018 | 8,188 | 371 | - | (2,459) |
| Extracurricular Activities | 341,193 | 121,444 | 26,000 | - | (193,749) |
| Interest and Fiscal Charges | 113,111 | - | - | - | (113,111) |
| Totals | \$10,339,843 | \$469,020 | \$2,451,697 | \$201,111 | (7,218,015) |
| General Revenues | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 955,532 |
| Debt Service | | | | | 256,606 |
| Other Purposes | | | | | 21,861 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 7,584,704 |
| Gain on Sale of Capital Assets | | | | | 1,250 |
| Investment Earnings | | | | | 50,411 |
| Miscellaneous | | | | | 120,617 |
| Total General Revenues | | | | | 8,990,981 |
| Change in Net Assets | | | | | 1,772,966 |
| Net Assets Beginning of Year | | | | | 27,568,419 |
| Net Assets End of Year | | | | | \$29,341,385 |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District

Balance Sheet

Governmental Funds

June 30, 2004

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,591,678 | \$1,638,939 | \$2,663,499 | \$8,894,116 |
| Receivables: | | | | |
| Property Taxes | 970,326 | 22,223 | 260,729 | 1,253,278 |
| Accounts | 191 | - | 5,311 | 5,502 |
| Interfund | 14,824 | - | - | 14,824 |
| Intergovernmental | - | 10,755,084 | 273,672 | 11,028,756 |
| Prepaid Items | 52,736 | - | 15,874 | 68,610 |
| Materials and Supplies Inventory | - | - | 7,751 | 7,751 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 91,075 | - | - | 91,075 |
| <i>Total Assets</i> | <u>\$5,720,830</u> | <u>\$12,416,246</u> | <u>\$3,226,836</u> | <u>\$21,363,912</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$121,534 | \$ - | \$29,136 | \$150,670 |
| Accrued Wages and Benefits Payable | 800,051 | - | 236,198 | 1,036,249 |
| Matured Compensated Absences Payable | 12,664 | - | - | 12,664 |
| Interfund Payable | - | - | 14,824 | 14,824 |
| Intergovernmental Payable | 195,181 | - | 79,474 | 274,655 |
| Deferred Revenue | 954,662 | 10,776,956 | 327,063 | 12,058,681 |
| <i>Total Liabilities</i> | <u>2,084,092</u> | <u>10,776,956</u> | <u>686,695</u> | <u>13,547,743</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 189,471 | 632,281 | 57,622 | 879,374 |
| Reserved for Property Taxes | 15,665 | 351 | 4,223 | 20,239 |
| Reserved for Budget Stabilization | 57,745 | - | - | 57,745 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 3,373,857 | - | - | 3,373,857 |
| Special Revenue Funds | - | - | 1,025,524 | 1,025,524 |
| Debt Service Funds | - | - | 598,435 | 598,435 |
| Capital Projects Funds | - | 1,006,658 | 854,337 | 1,860,995 |
| <i>Total Fund Balances</i> | <u>3,636,738</u> | <u>1,639,290</u> | <u>2,540,141</u> | <u>7,816,169</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$5,720,830</u> | <u>\$12,416,246</u> | <u>\$3,226,836</u> | <u>\$21,363,912</u> |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

| | | |
|--|-------------------|-----------------------------------|
| Total Governmental Fund Balances | | \$7,816,169 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 12,774,560 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property Taxes | 274,208 | |
| Charges for Services | 4,943 | |
| Grants | <u>10,817,948</u> | 11,097,099 |
| Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but are not recognized on the balance sheet until due. | | (5,974) |
| Interest Payable is accrued for outstanding long-term liabilities, while interest is not reported until due on the balance sheet. | | (9,319) |
| Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | | (94,070) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| School Construction Bonds | (1,780,000) | |
| Sick Leave Benefit Payable | <u>(457,080)</u> | <u>(2,237,080)</u> |
| Net Assets of Governmental Activities | | <u><u>\$29,341,385</u></u> |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$961,425 | \$21,861 | \$258,372 | \$1,241,658 |
| Intergovernmental | 8,191,770 | 1,411,154 | 2,577,421 | 12,180,345 |
| Investment Earnings | 47,729 | 2,682 | 717 | 51,128 |
| Charges for Services | - | - | 207,145 | 207,145 |
| Tuition and Fees | 949 | - | 9,663 | 10,612 |
| Extracurricular Activities | - | - | 250,709 | 250,709 |
| Miscellaneous | 119,866 | - | 26,953 | 146,819 |
| <i>Total Revenues</i> | <u>9,321,739</u> | <u>1,435,697</u> | <u>3,330,980</u> | <u>14,088,416</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,431,410 | - | 678,206 | 4,109,616 |
| Special | 382,241 | - | 711,751 | 1,093,992 |
| Vocational | 34,556 | - | - | 34,556 |
| Adult/Continuing | 4,516 | - | - | 4,516 |
| Support Services: | | | | |
| Pupil | 268,885 | - | 38,599 | 307,484 |
| Instructional Staff | 259,018 | - | 453,935 | 712,953 |
| Board of Education | 17,215 | - | - | 17,215 |
| Administration | 648,212 | - | 3,981 | 652,193 |
| Fiscal | 220,097 | 739 | 10,512 | 231,348 |
| Business | 14,360 | - | - | 14,360 |
| Operation and Maintenance of Plant | 960,121 | - | - | 960,121 |
| Pupil Transportation | 529,765 | - | - | 529,765 |
| Central | 122,513 | - | 25,390 | 147,903 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | - | - | 530,390 | 530,390 |
| Community Service | - | - | 11,018 | 11,018 |
| Extracurricular Activities | 215,256 | - | 126,081 | 341,337 |
| Capital Outlay | - | 305,312 | 285,779 | 591,091 |
| Debt Service: | | | | |
| Principal | - | - | 60,000 | 60,000 |
| Interest and Fiscal Charges | - | - | 113,368 | 113,368 |
| <i>Total Expenditures</i> | <u>7,108,165</u> | <u>306,051</u> | <u>3,049,010</u> | <u>10,463,226</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>2,213,574</u> | <u>1,129,646</u> | <u>281,970</u> | <u>3,625,190</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | - | - | 1,250 | 1,250 |
| Transfers In | - | 194,000 | 93,663 | 287,663 |
| Transfers Out | (90,563) | - | (197,100) | (287,663) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(90,563)</u> | <u>194,000</u> | <u>(102,187)</u> | <u>1,250</u> |
| <i>Net Change in Fund Balance</i> | <u>2,123,011</u> | <u>1,323,646</u> | <u>179,783</u> | <u>3,626,440</u> |
| <i>Fund Balances Beginning of Year</i> | <u>1,513,727</u> | <u>315,644</u> | <u>2,360,358</u> | <u>4,189,729</u> |
| <i>Fund Balances End of Year</i> | <u>\$3,636,738</u> | <u>\$1,639,290</u> | <u>\$2,540,141</u> | <u>\$7,816,169</u> |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$3,626,440

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

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

| | | |
|-------------------------|-----------|--------|
| Capital Asset Additions | 541,852 | |
| Depreciation Expense | (473,714) | 68,138 |

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

| | | |
|----------------------|-------------|-------------|
| Grants | (1,969,550) | |
| Charges for Services | 352 | |
| Delinquent Taxes | (7,659) | (1,976,857) |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

60,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.

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

| | | |
|-----------------------------|---------|---------|
| Intergovernmental Payables | (6,178) | |
| Vacation Benefits Payable | (265) | |
| Sick Leave Benefits Payable | 1,431 | (5,012) |

Change in Net Assets of Governmental Activities

\$1,772,966

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Taxes | \$808,432 | \$991,113 | \$991,113 | \$ - |
| Intergovernmental | 7,194,547 | 8,237,529 | 8,237,529 | - |
| Investment Earnings | 48,300 | 46,572 | 46,572 | - |
| Tuition and Fees | 3,619 | 949 | 949 | - |
| Miscellaneous | 47,000 | 119,675 | 119,675 | - |
| <i>Total Revenues</i> | <u>8,101,898</u> | <u>9,395,838</u> | <u>9,395,838</u> | <u>-</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,566,224 | 3,559,275 | 3,559,275 | - |
| Special | 986,992 | 419,653 | 419,653 | - |
| Vocational | 583 | 28,032 | 28,032 | - |
| Adult/Continuing | 4,516 | 4,516 | 4,516 | - |
| Other | 2,750 | 2,750 | 2,750 | - |
| Support Services: | | | | |
| Pupil | 272,948 | 269,318 | 269,318 | - |
| Instructional Staff | 237,382 | 250,946 | 250,946 | - |
| Board of Education | 20,580 | 16,993 | 16,993 | - |
| Administration | 569,993 | 640,827 | 640,827 | - |
| Fiscal | 176,446 | 219,914 | 219,914 | - |
| Business | 2,000 | 13,420 | 13,420 | - |
| Operation and Maintenance of Plant | 951,335 | 1,025,259 | 1,025,259 | - |
| Pupil Transportation | 553,491 | 683,417 | 683,417 | - |
| Central | 0 | 115,473 | 115,473 | - |
| Extracurricular Activities | 181,080 | 210,856 | 210,856 | - |
| <i>Total Expenditures</i> | <u>8,526,320</u> | <u>7,460,649</u> | <u>7,460,649</u> | <u>-</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (424,422) | 1,935,189 | 1,935,189 | - |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 973,685 | - | - | - |
| Advances In | 75,000 | 168,581 | 168,581 | - |
| Transfers Out | (1,000) | (90,563) | (90,563) | - |
| Advances Out | (50,000) | - | - | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>997,685</u> | <u>78,018</u> | <u>78,018</u> | <u>-</u> |
| <i>Net Change in Fund Balance</i> | 573,263 | 2,013,207 | 2,013,207 | - |
| <i>Fund Balance Beginning of Year</i> | 1,991,608 | 1,991,608 | 1,991,608 | - |
| Prior Year Encumbrances Appropriated | <u>401,002</u> | <u>401,002</u> | <u>401,002</u> | <u>-</u> |
| <i>Fund Balance End of Year</i> | <u>\$2,965,873</u> | <u>\$4,405,817</u> | <u>\$4,405,817</u> | <u>\$ -</u> |

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents \$527,734

Liabilities

Due to Others \$510,073

Due to Students 17,661

Total Liabilities \$527,734

See accompanying notes to the basic financial statements.

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's three instructional/support facilities staffed by 52 classified employees, 95 certified teaching personnel, and 7 administrators, who provide services to 1,333 students and other community members.

Reporting Entity

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

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

The School District serves as fiscal agent for the Pilasco-Ross Special Education Regional Resource Center. The organization is presented as a fiduciary fund within the School District's financial statements. The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Plan, and the Lawrence County Schools Insurance Purchasing Consortium. These organizations are presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Dawson-Bryant Local School District
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 the fiduciary funds.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds used by this School District can be classified using two categories, governmental and fiduciary.

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

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

Classroom Facilities Capital Projects Fund The Classroom Facilities Capital Projects Fund accounts for transactions related to the acquiring, constructing, improving, and renovating the School District's school facilities.

Dawson-Bryant Local School District

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

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments consisted solely of overnight repurchase agreements. These nonparticipating investment contracts are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$47,729, which includes \$27,072 assigned from other School District funds.

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

Dawson-Bryant Local School District

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

F. Prepaid Items

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

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of expendable supplies held for consumption, and donated and purchased food held for resale.

H. Capital Assets

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

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

All reported capital assets, except land, land improvements, 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:

| Description | Estimated Lives |
|----------------------------|-----------------|
| Buildings and Improvements | 50 years |
| Furniture and Equipment | 5 - 15 years |
| Vehicles | 3 - 15 years |

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets represent amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 17 for additional information regarding set-asides.

J. Compensated Absences

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

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The entire sick leave benefit liability is reported on the government-wide financial statements.

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured benefits payable" in the fund from which the employees who will receive the payment is paid.

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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 fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

L. Interfund Activity

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, and music and athletic programs, and federal and state grants restricted to expenditure for specific purposes.

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

O. Extraordinary and Special Items

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

P. Estimates

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

Q. Budgetary Process

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has the authority to allocate appropriations to the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statement reflect the amounts on the certificate of estimated resources in effect when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue equaled actual revenue.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including

Dawson-Bryant Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched appropriations to actual expenditures during the fiscal year plus encumbrances outstanding at year-end.

Note 3 - Change in Accounting Principle

Change in Accounting Principle

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

Note 4 - Budgetary Basis of Accounting

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

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

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

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance

| | |
|---|--------------------|
| GAAP Basis | \$2,123,011 |
| Revenue Accruals | 72,942 |
| Prepaid Items at Beginning of Fiscal Year | 84,040 |
| Prepaid Items at End of Fiscal Year | (52,736) |
| Advances In | 168,581 |
| Unrecorded Cash | 1,157 |
| Expenditure Accruals | (93,182) |
| Encumbrances | (290,606) |
| Budget Basis | <u>\$2,013,207</u> |

Note 5 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home

Dawson-Bryant Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$3,465,925 and the bank balance was \$3,631,040. Of the bank balance:

1. \$230,792 was covered by federal depository insurance; and
2. \$3,400,248 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Dawson-Bryant Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

| <u>Investment</u> | <u>Category 3</u> | <u>Carrying/ Fair Value</u> |
|-----------------------|-------------------|---------------------------------|
| Repurchase Agreements | \$6,047,000 | \$6,047,000 |

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

| | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|-----------------------|---|--------------------|
| GASB Statement 9 | \$9,512,925 | \$0 |
| Repurchase Agreements | (6,047,000) | 6,047,000 |
| GASB Statement 3 | <u>\$3,465,925</u> | <u>\$6,047,000</u> |

Note 6 - Property Taxes

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

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

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

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

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$20,239 and is recognized as revenue: \$15,665 in the General Fund, \$4,223 in the Bond Retirement Fund, and \$351 in the Classroom Facilities Capital Projects Fund.

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

| | 2003 Second- Half Collections | | 2004 First- Half Collections | |
|---|----------------------------------|---------|---------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$38,142,270 | 82% | \$39,290,110 | 82% |
| Public Utility Personal | 2,357,090 | 5% | 2,503,570 | 5% |
| Tangible Personal Property | 6,223,010 | 13% | 6,204,500 | 13% |
| Total | \$46,722,370 | 100% | \$47,998,180 | 100% |
| Tax Rate per \$1,000 of assessed valuation | \$26.50 | | \$26.50 | |

Note 7 - Receivables

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

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A summary of principal items of intergovernmental receivables follows:

| | Amounts |
|--------------------------------|--------------|
| Governmental Activities | |
| Ohio School Facilities Grant | \$10,755,084 |
| National School Lunch Program | \$48,179 |
| Title IDEA-B | 28,735 |
| Title I | 95,902 |
| Title V | 3,962 |
| Drug Free Schools | 5,097 |
| Class Size Reduction | 51,336 |
| Miscellaneous Federal Grants | 16,299 |
| Other Governmental Receivables | 24,162 |
| Total | \$11,028,756 |

On November 15, 2001, the School District was awarded \$12,164,584 for the construction of an elementary school and renovation of a middle/high school under the State's "Classroom Facilities Program". As of the end of fiscal year 2004, the School District has received \$1,409,500 of the amount awarded under this program. The remaining amount of \$10,755,084 is recorded as a receivable. Although the project was approved in fiscal year 2001, the land on which to build the facility was not purchased until fiscal year 2004.

Note 8 - Capital Assets

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

| | Balance 6/30/2003 | Additions | Deductions | Balance 6/30/2004 |
|---|----------------------|-------------|------------|----------------------|
| Capital Assets: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land and Land Improvements | \$174,634 | \$193,500 | \$0 | \$368,134 |
| Construction in Progress | 378,439 | 250,395 | 0 | 628,834 |
| Total Capital Assets not being Depreciated | 553,073 | 443,895 | 0 | 996,968 |
| Depreciable Capital Assets: | | | | |
| Buildings and Improvements | 14,752,308 | 77,192 | 0 | 14,829,500 |
| Furniture and Equipment | 1,251,174 | 0 | 0 | 1,251,174 |
| Vehicles | 826,662 | 20,765 | (79,225) | 768,202 |
| Total Capital Assets being Depreciated | 16,830,144 | 97,957 | (79,225) | 16,848,876 |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | (3,349,001) | (295,819) | 0 | (3,644,820) |
| Furniture and Equipment | (802,817) | (121,707) | 0 | (924,524) |
| Vehicles | (524,977) | (56,188) | 79,225 | (501,940) |
| Total Accumulated Depreciation | (4,676,795) | (473,714) * | 79,225 | (5,071,284) |
| Total Capital Assets being Depreciated, Net | 12,153,349 | (375,757) | 0 | 11,777,592 |
| Capital Assets, Net | \$12,706,422 | \$68,138 | \$0 | \$12,774,560 |

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

* Depreciation expense was charged to governmental functions as follows:

| | |
|--|------------------|
| Instruction: | |
| Regular | \$160,581 |
| Special | 57,847 |
| Support Services: | |
| Pupil | 13,275 |
| Instructional Staff | 67,750 |
| Administration | 34,025 |
| Fiscal | 5,102 |
| Operation and Maintenance of Plant | 32,270 |
| Pupil Transportation | 81,726 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 21,138 |
| Total Depreciation Expense | <u>\$473,714</u> |

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with the Cincinnati Insurance Company for property and fleet insurance and inland marine coverage. The type and amount of coverage provided by the Cincinnati Insurance Company follows:

| | |
|---|--------------|
| Building and Contents-replacement cost (\$500 deductible) | \$21,471,250 |
| Boiler and Machinery (\$1,000 deductible) | 500,000 |
| Inland Marine: | |
| Band Uniforms (\$250 deductible) | 32,516 |
| Computers (\$100 deductible) | 50,000 |
| Crime - Public Employee Dishonesty (\$4,000 deductible) | 25,000 |
| Automobile Liability (\$100 deductible): | |
| Bodily Injury and Property Damage - combined single limit | 1,000,000 |
| Medical Payments - each person | 5,000 |
| Uninsured Motorists | 1,000,000 |

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 16).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

| | |
|--|-------------|
| General Liability: | |
| Each Occurrence | \$1,000,000 |
| Aggregate Limit | 3,000,000 |
| Products - Complete Operations Aggregate Limit | 1,000,000 |
| Fire Legal Liability | 500,000 |
| Medical Expense Limit - per person/accident | 10,000 |

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

| | |
|---------------------------------|-----------|
| Employers Liability - Stop Gap: | |
| Per Accident | 1,000,000 |
| Per Disease Each Employee | 1,000,000 |
| Per Disease Policy Limit | 1,000,000 |
| Employee Benefits Liability: | |
| Per Claim | 1,000,000 |
| Aggregate Limit | 2,000,000 |
| Excess Liability: | |
| Each Occurrence | 1,000,000 |
| Aggregate Limit | 2,000,000 |

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

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation from one fiscal year may only be carried forward for two months into the next fiscal year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, employees receive payment for one-fourth of their accumulated sick leave accumulation, up to a maximum of 60 days.

B. Insurance

The School District provides medical, health, and prescription card coverage through Medical Mutual of Ohio. The School District pays seventy-seven per cent of the total monthly premiums of \$1,134.16 for family coverage and \$567.08 for single coverage.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem Life Insurance Company, in the amount of \$25,000.

Vision Insurance is provided through Vision Service Plan. The School District pays one hundred percent of the monthly premium of \$24.54 for each employee.

Note 11 - Contractual Commitments

As of June 30, 2004, the School District had contractual purchase commitments for architectural and preliminary services on the renovation of school facilities for \$1,376,059. The contracts are accounted for in the Classroom Facilities Capital Projects Fund. As of June 30, 2004, the School District paid \$480,269 on these contracts, leaving a remaining balance on the contracts of \$895,790.

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 12 - Defined Benefit Pension Plans

A. 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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 9.3 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. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% 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 to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$314,339, \$267,029, and \$209,431, respectively; 82.32 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 made by the School District and \$3,771 made by the plan members.

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. 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.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$67,179, \$54,639, and \$39,470, respectively; 56.33 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

Retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$183,796 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$50,266.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 - Long Term Obligations

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

| | Principal Outstanding 6/30/03 | Additions | Reductions | Principal Outstanding 6/30/04 | Amounts Due in One Year |
|--------------------------------|-------------------------------------|-----------------|-----------------|-------------------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| 1995 School Building, 4.3-6.7% | \$1,840,000 | \$0 | \$60,000 | \$1,780,000 | \$65,000 |
| Sick Leave Benefits | 440,019 | 40,862 | 23,801 | 457,080 | 30,243 |
| Total Governmental Activities | | | | | |
| Long-Term Liabilities | <u>\$2,280,019</u> | <u>\$40,862</u> | <u>\$83,801</u> | <u>\$2,237,080</u> | <u>\$95,243</u> |

The School District issued classroom facility improvement bonds in 1995 in the amount of \$2,170,010 to meet the matching requirement for a classroom facility project involving the Ohio School Facilities Commission. The project included the construction of a new high school, as well as renovations to a middle school and an elementary school. The bonds bear variable interest rates and are retired through the bond retirement debt service fund.

Sick leave benefits paid as severance to employees will be paid from the General Fund out of regular instruction, regardless of the fund and function from which the regular salary is paid.

The overall debt margin of the School District as of June 30, 2004, was \$4,918,271, with an unvoted debt margin of \$47,998.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2004, are as follows:

Dawson-Bryant Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|--------------------|--------------------|
| 2005 | \$65,000 | \$111,822 | \$176,822 |
| 2006 | 75,000 | 108,443 | 183,443 |
| 2007 | 80,000 | 104,467 | 184,467 |
| 2008 | 85,000 | 100,148 | 185,148 |
| 2009 | 100,000 | 95,473 | 195,473 |
| 2010-2014 | 630,000 | 379,502 | 1,009,502 |
| 2015-2017 | 745,000 | 130,315 | 875,315 |
| Total | <u>\$1,780,000</u> | <u>\$1,030,170</u> | <u>\$2,810,170</u> |

Note 15 - Jointly Governed Organizations

A. South Central Ohio Computer Association

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. Dawson-Bryant Local School District paid \$111,046 for services provided during fiscal year 2004. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

B. Pilasco-Ross Special Education Regional Resource Center

Pilasco-Ross is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the South Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Dawson-Bryant Local School District serves as the fiscal agent for Pilasco-Ross. Financial information can be obtained by contacting Jim Tordiff, Treasurer, 222 Lane Street, Coal Grove, Ohio 45638.

Note 16 - Insurance Purchasing Pools

A. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other

Dawson-Bryant Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Lawrence County Schools Insurance Purchasing Consortium

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

Note 17 - Set asides

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

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

| | Budget Stabilization Reserve | Capital Improvements Reserve | Textbooks Instructional Materials Reserve |
|--|------------------------------------|------------------------------------|--|
| Set-aside Reserve Balanced as of June 30, 2003 | \$91,075 | (\$46,786) | (\$616,205) |
| Current Year Set-aside Requirement | 0 | 187,764 | 187,764 |
| Current Year Offsets | 0 | (22,569) | 0 |
| Qualifying Disbursements | (33,330) | (230,465) | (222,656) |
| Total | <u>\$57,745</u> | <u>(\$112,056)</u> | <u>(\$651,097)</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$57,745</u> | <u>(\$112,056)</u> | <u>(\$651,097)</u> |
| Set-aside Reserve Balance as of June 30, 2004 | <u>\$57,745</u> | <u>\$0</u> | <u>\$0</u> |

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

Note 18 - State School Funding Decision

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

Dawson-Bryant Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Note 19 - Interfund Balances and Transfers

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

| | Interfund Receivable | Interfund Payable |
|-----------------------------|-------------------------|----------------------|
| General Fund: | \$14,824 | \$0 |
| Special Revenue Funds: | | |
| Class Size Reduction | 0 | 14,824 |
| Total Special Revenue Funds | 0 | 14,824 |
| Total All Funds | \$14,824 | \$14,824 |

The General Fund made an advance to the Class Size Reduction Fund in anticipation of receiving grant proceeds at a later date. The advance will be repaid upon receipt of the grant monies.

During fiscal year 2004, the General Fund made transfers to other non-major governmental funds, in the amount of \$90,563, to subsidize various programs in other funds. The Permanent Improvement non-major governmental fund transferred \$197,100 to the Classroom Facilities Major Capital Project Fund. This represents the School District's share for the Ohio School Facilities Commission project to upgrade elementary school facilities.

Note 20 - Contingencies

A. Grants

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

B. Litigation

The School District is not party to legal proceedings.

SUPPLEMENTAL INFORMATION

**DAWSON-BRYANT LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Receipts</u> | <u>Expenditures</u> |
|---|------------------------------------|--|---------------------|---------------------|
| <u>U.S. Department of Agriculture</u> | | | | |
| Passed through Ohio Department of Education: | | | | |
| Food Donation | 10.550 | N/A | \$ 13,243 | \$ 13,243 |
| National School Breakfast Program | 10.553 | 05-PU | 54,509 | 54,509 |
| National School Lunch Program | 10.555 | LL-P4/P1 | 204,115 | 204,115 |
| Summer Food Service Program | 10.559 | 23/24-PU | <u>39,461</u> | <u>39,461</u> |
| Total U.S. Department of Agriculture | | | <u>311,328</u> | <u>311,328</u> |
| <u>U.S. Department of Education</u> | | | | |
| Passed through State Department of Education: | | | | |
| Title I | 84.010 | C1-S1 | 706,991 | 524,419 |
| IDEA, Part B | 84.027 | 6B-SI/AA/SF/SA/II | 1,249,698 | 1,233,823 |
| Drug-Free Schools and Communities | 84.186 | DR-S1 | 9,641 | 11,882 |
| Innovative Education Programs | 84.298 | C2-S1 | 12,536 | 14,016 |
| Education Technology State Grant | 84.318 | TJ-S1 | 9,036 | 122,687 |
| Improving Teacher Quality State Grant | 84.367 | TR-S1 | <u>178,440</u> | <u>139,670</u> |
| Total U.S. Department of Education | | | <u>2,166,342</u> | <u>2,046,497</u> |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| Passed through State Department of Mental Retardation and Development Disabilities: | | | | |
| Medical Assistance Program | 93.778 | N/A | <u>35,673</u> | <u>35,673</u> |
| Total U.S. Department of Health and Human Services | | | <u>35,673</u> | <u>35,673</u> |
| Total expenditures of Federal Awards | | | <u>\$ 2,513,343</u> | <u>\$ 2,393,498</u> |

DAWSON-BRYANT LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - SPECIAL EDUCATION CLUSTER

A portion of the Special Education Program (CFDA 84.027) is administered by Pilasco-Ross Special Educational Regional resources Center. Pilasco-Ross SERRC is a multi-county special education service organization which selects its own board, adopts its own budget, and receives direct Federal and State grants for its operation. The Dawson-Bryant Local School District serves as fiscal agent for the Pilasco-Ross SERRC.

Although, not authorized by the School District, the financial transactions of Pilasco-Ross SERRC are recorded and maintained by the School District Treasurer and are included in the basic financial statements as an Agency fund. The Ohio Department of Education requires the School District to include on their Schedule of Federal Award Expenditures, the federal receipts and expenditures of Pilasco-Ross SERRC.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board
Dawson-Bryant Local School District
222 Lane Street
Coal Grove, Ohio 45638

We have audited the financial statements of the Dawson-Bryant Local School District, (the "District") as of and for the year ended June 30, 2004, and have issued our report thereon dated April 29, 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 basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-001 and 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 29, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting

and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to management of the District in a separate letter dated April 29, 2005.

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

Kelley, Ballouay & Company, PSC

April 29, 2005



Kelley,
Galloway &
Company, PSC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Dawson-Bryant Local School District
222 Lane Street
Coal Grove, Ohio 45638

Compliance

We have audited the compliance of the Dawson-Bryant Local School District, (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, we noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the District in a separate letter dated April 29, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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.

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. However, we noted other matters involving internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 29, 2005.

This report is intended solely for the information of the Board and management of the District, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified users.

Kelley, Goffman & Company, P.C.

April 29, 2005

DAWSON-BRYANT LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2004

1. Summary of Auditor's Results

| | | |
|--------------|--|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any reportable conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Were there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any reportable internal control conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any material 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): | Title I Grants to Local Educational Agencies - CFDA #84.010 IDEA Part B - CFDA #84.027 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

DAWSON-BRYANT LOCAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2004

(2) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Finding Number 2004-001

Noncompliance Citation - Appropriations Exceeded Estimated Resources

Ohio Rev. Code Section 5705.39 states the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

As discussed in Auditor of State Bulletin 97-012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. However, an advance should be used to prevent a negative fund balance. Negative variances in grant funds, between appropriations and certified available resources, should be investigated to determine the cause of the variance.

There were several variances noted at interim dates in which appropriations exceeded the original certificate of estimated resources. Below are some of the most significant variances noted:

| <u>Fund</u> | <u>Description</u> | <u>Appropriation</u> | <u>Estimated Resource</u> | <u>Variance</u> | <u>%</u> |
|-------------|---------------------------|----------------------|---------------------------|-----------------|----------|
| 590 | Improving Teacher Quality | \$153,642 | \$95,269 | \$58,373 | 61% |
| 451 | Data Communication | 10,500 | - | 10,500 | 100% |

Finding Number 2004-002

Noncompliance Citation – Use of 412 Certificates

Ohio Rev. Code Section 5705.412 requires the Treasurer, Superintendent and President of the Board of Education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year.

Term of certificate:

- The certificate attached to an appropriation measure covers only the fiscal year in which the appropriation measure is effective.
- The certification must be attached to all appropriation measures *except* for temporary measures when the temporary measure does not appropriate more than twenty-five percent of the total resources available last year for any fund, the measure will not be in effect for more than thirty days after the earliest date the district could pass an annual appropriation

measure, and an amended certificate of available revenues has not been certified to the district under Ohio Rev. Code Section 5705.36.

- The certificate attached to a qualifying contract covers the term of the contract.
- The certificate attached to a wage or salary schedule covers the term of the schedule.
- A “*qualifying contract*” is “...any agreement for the expenditure of money under which aggregate payments from the funds included in the school district’s five-year forecast under Section 5705.391 of the revised code will exceed the lesser of the following amounts...”:
 1. \$500,000; or
 2. 1% of the general fund’s total estimated revenues as certified in the district’s most recent certificate of estimated resources under Ohio Rev. Code Section 5705.36.

A school district must include the additional certification under Section 5705.412 along with the certification required under Section 5705.41 except under the following circumstances:

- for current payrolls of individual regular employees or officers, or contracts of employment with individual regular employees or officers; or,
- when increasing the wages or salaries enabling the school board to comply with division (B) of Ohio Rev. Code Section 3317.13, which addresses the minimum salary schedule for teachers.

Section 5705.412 certificates should be executed for:

- appropriation measures (except certain temporary measures; see above);
- increased salary or wage schedules; and
- any other “qualifying contracts”, including 1) negotiated agreements (e.g., professional association contracts) and, 2) contracts for benefits (e.g., major health insurance contracts).

Obligations that have not been certified as required are considered void. No payments may be made on void obligations.

We noted that year-to-date disbursements plus encumbrances exceeded appropriations for three funds as of April 30, 2004 and the District did not do 412 certificates for their amended or final appropriation amendment. We recommend that these 412 certificates be completed in a timely manner.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None.

**DAWSON-BRYANT LOCAL SCHOOL DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|--|
| 2003-001 | Overpayment of Severance Pay | Yes | This matter has been turned over to the County Attorney for collection. |
| 2003-002 | Personal Computer Purchase | No | Partially corrected - A payment plan has been put in place to allow the employees to reimburse the District the required amounts. |
| 2003-003 | Dental Insurance | Yes | This matter has been turned over to the County Attorney for collection. |
| 2003-004 | Warrant Payment | Yes | This matter has been turned over to the County Attorney for collection. |
| 2003-005 | Self-Insurance Fund Balance | Yes | The District Board approved the transfer to the General Fund after consultation with the Board attorney. |
| 2003-006 | Food Service Interest | Yes | The District general fund subsidizes the food service fund in an amount far greater than the monthly interest that would be due food service. |
| 2003-007 | Certificate of Estimated Resources | Yes | The District is now properly submitting certificates of estimated resources by the required dates. |
| 2003-008 | Appropriations Exceeded Estimated Resources | No | Not corrected - Repeated in current audit as finding 2004-001. |
| 2003-009 | Use of 412 Certificates | No | Not corrected - Repeated in current audit as finding 2004-002. |
| 2003-010 | Unallowable Transfers and Advances | Yes | The District is now reviewing Ohio Revised Code prior to making any transfers or advances to ensure they are allowable. |
| 2003-011 | Treasurer's License | Yes | The District Treasurer has a valid treasurer's license as required. |
| 2003-012 | Benefits Payments for Pilasco Ross Employees | Yes | The District Treasurer now ensures that benefits are paid from the proper funds. |
| 2003-013 | Certification of Funds | Yes | All payments are now supported by a certification of the availability of funds. |
| 2003-014 | Monitoring of Financial Activity | Yes | The District Treasurer is utilizing reports to ensure proper cash management. Monthly reports are also given to the Board for review. |
| 2003-015 | Posting of Budgeted Amounts | Yes | Approved budget accurately input into the system. |
| 2003-016 | Fixed Asset Tracking | No | Partially corrected - The District has contracted with a firm to appraise fixed assets and update their fixed asset system. |
| 2003-017 | Improper Posting | No | Partially corrected - All improper posting issues were corrected with the exception of Foundation payments. The District will correct in fiscal year 2005. |

**DAWSON-BRYANT LOCAL SCHOOL DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| | | | |
|----------|--|-----|---|
| 2003-018 | Purchasing Procedures | Yes | The District requires proper approval on all expenditures. The District has made it clear to all staff that no one is to sign on anyone's behalf for approval of a purchase or purchase order. |
| 2003-019 | Equipment and Real Property Management | No | Partially corrected - The District has contracted with a firm to appraise fixed assets and update their fixed asset system. |
| 2003-020 | Allowable Costs/Cost Principles | Yes | The Ohio Department of Education did not request repayment of the questioned costs. The District Treasurer now tracks expenditures to grant guidelines. |
| 2003-021 | Period of Availability of Federal Funds | Yes | The Ohio Department of Education did not request repayment of the questioned costs. The District Treasurer now reviews all expenditures for the proper grant period. |
| 2003-022 | Reporting | Yes | The District now utilizes system generated reports to support expenditures reported to grantors. |
| 2003-023 | Cash Management | No | Partially corrected - The Ohio Department of Education did not request repayment of the questioned costs. We noted an instance where the Title I program had a negative cash balance for five months during the year. |
| 2003-024 | Monitoring of Pilasco Ross Special Education Regional Resources Center (Pilasco Ross) Federal Grants | Yes | The District Treasurer provides Pilasco Ross with monthly financial reports for monitoring purposes. |
| 2003-025 | Allowable Costs/Cost Principles and Period of Availability of Federal Funds | Yes | The Ohio Department of Education did not request repayment of the questioned costs. The District Treasurer now tracks expenditures to grant guidelines and reviews all expenditures for the proper grant period. |

DAWSON-BRYANT LOCAL SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2004

NAME OF CONTACT PERSON

Jim Tordiff, Treasurer

CORRECTIVE ACTION PLANNED

2004-01 The District will continue to monitor financial reports to ensure that appropriations do not exceed estimated resources.

2004-02 The District will properly approve all required 412 certificates.

ANTICIPATED COMPLETION DATE

June 30, 2005



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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DAWSON-BRYANT LOCAL SCHOOL DISTRICT

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 9, 2005**