



**Auditor of State
Betty Montgomery**

McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

McComb Local School District
Hancock County
328 South Todd Street, P.O. Box 877
McComb, Ohio 45858-0877

To the Board of Education:

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

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

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

As described in Note 3, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 23, 2005

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$303,844.
- General revenues accounted for \$6,369,527, or 89 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$776,920 or 11 percent of total revenues of \$7,146,447.
- The District's major fund is the General Fund. The General Fund had \$5,770,778 in revenues and \$5,636,312 in expenditures and other financing uses. The General Fund's balance increased \$134,466 from the prior fiscal year.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund is the only major fund.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General Fund. While the District uses many funds to account for its financial transactions, the General Fund is the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 1
Net Assets
Governmental Activities

	2004
Assets	
Current and Other Assets	\$ 4,508,680
Capital Assets, Net	4,681,915
<i>Total Assets</i>	9,190,595
Liabilities	
Current and Other Liabilities	2,777,464
Long-Term Liabilities	3,102,544
<i>Total Liabilities</i>	5,880,008
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,217,995
Restricted	540,464
Unrestricted	770,370
<i>Total</i>	\$ 5,528,829

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 321,767
Operating Grants, Contributions and Interest	397,515
Capital Grants and Contributions	18,700
<i>Total Program Revenues</i>	737,982
General Revenues:	
Property Taxes	2,233,875
Income Taxes	635,689
Grants and Entitlements	3,421,822
Interest	18,767
Gifts and Donations	72,435
Miscellaneous	25,877
<i>Total General Revenues</i>	6,408,465
<i>Total Revenues</i>	7,146,447

(Continued)

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 (Continued)
Change in Net Assets
Governmental Activities

	2004
Expenses:	
Instruction	3,938,302
Support Services:	
Pupils	171,224
Instructional Staff	297,814
Board of Education	10,108
Administration	632,590
Fiscal	169,902
Operation and Maintenance of Plant	344,227
Pupil Transportation	313,921
Central	18,170
Non-Instructional	280,976
Extracurricular Activities	283,224
Capital Outlay	89,492
Interest and Fiscal Charges	167,604
<i>Total Expenses</i>	6,717,554
<i>Increase in Net Assets</i>	\$ 428,893

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$ 3,938,302	\$ 3,564,213
Support Services:		
Pupils	171,224	141,624
Instructional Staff	297,814	244,028
Board of Education	10,108	10,108
Administration	632,590	632,590
Fiscal	169,902	169,902
Operation and Maintenance of Plant	344,227	344,227
Pupil Transportation	313,921	313,921
Central	18,170	18,170

(Continued)

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 3 (Continued)
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Non-Instructional	280,976	124,235
Extracurricular Activities	283,224	159,458
Capital Outlay	89,492	89,492
Interest and Fiscal Charges	167,604	167,604
<i>Total Expenses</i>	<u>\$ 6,719,558</u>	<u>\$ 5,981,576</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 90 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 89 percent. The remaining 11 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues of \$7,114,855 and expenditures of \$6,936,013. The net positive change of \$178,842 in fund balance for the year indicates that the District is able to meet current costs.

General Fund Budgeting Highlights

The 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 year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$5,628,676 while actual expenditures were \$5,583,174. The \$45,502 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$4,681,915 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$2,580,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-two year period, with final maturity on December 1, 2018. The bonds are being retired through the Bond Retirement Debt Service Fund.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

At June 30, 2004, the District's overall legal debt margin was \$4,405,795, with an un-voted debt margin of \$53,664.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. McComb is a small rural community of 1,656 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 46 percent of district revenue sources are from local funds, 52 percent from state funds and the remaining 2 percent is from federal funds. The total expenditure per pupil was calculated at \$6,998.

In March 2004, the District passed a five-year additional ½ percent Income Tax beginning January 1, 2005 to generate approximately \$300,000 annually for five years. This levy provides a source of funds for the financial operations and stability of the district. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda Clymer, Treasurer, McComb Local School District, 328 South Todd Street, P.O. Box 877, McComb, Ohio 45858-0877.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,964,608
Cash and Cash Equivalents with Fiscal Agents	27,529
Materials and Supplies Inventory	11,382
Accrued Interest Receivable	516
Accounts Receivable	123
Intergovernmental Receivable	83,199
Prepaid Items	64,074
Taxes Receivable	2,120,540
Income Taxes Receivable	236,709
Non-Depreciable Capital Assets	145,248
Depreciable Capital Assets, net	<u>4,536,667</u>
<i>Total Assets</i>	<u>9,190,595</u>
Liabilities	
Accounts Payable	47,988
Accrued Wages and Benefits	649,966
Intergovernmental Payable	147,171
Matured Bonds Payable	15,000
Matured Interest Payable	144
Matured Compensated Absences Payable	26,566
Deferred Revenue	1,890,629
Long-Term Liabilities:	
Due Within One Year	163,678
Due in More Than One Year	<u>2,938,866</u>
<i>Total Liabilities</i>	<u>5,880,008</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,999,753
Restricted for Debt Service	118,943
Restricted for Capital Outlay	70,716
Restricted for Other Purposes	350,805
Unrestricted	<u>770,370</u>
<i>Total Net Assets</i>	<u><u>\$ 3,310,587</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses
Governmental Activities:	
Instruction:	
Regular	\$ 2,758,747
Special	781,672
Vocational	227,697
Other	103,382
Support Services:	
Pupils	171,224
Instructional Staff	296,330
Board of Education	101,334
Administration	633,073
Fiscal	169,775
Operation and Maintenance of Plant	481,720
Pupil Transportation	348,737
Central	18,170
Operation of Non-Instructional Services	282,542
Extracurricular Activities	300,596
Debt Service:	
Interest and Fiscal Charges	167,604
	\$ 6,842,603
<i>Totals</i>	\$ 6,842,603

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 43,354	\$ 84,088	\$ 18,700	\$ (2,612,605)
	227,947		(553,725)
			(227,697)
			(103,382)
	29,600		(141,624)
	53,786		(242,544)
			(101,334)
			(633,073)
			(169,775)
			(481,720)
			(348,737)
			(18,170)
154,647	41,032		(86,863)
123,766			(176,830)
			(167,604)
<u>\$ 321,767</u>	<u>\$ 436,453</u>	<u>\$ 18,700</u>	<u>(6,065,683)</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	1,776,019
Property Taxes, Levied for Capital Outlay	160,787
Property Taxes, Levied for Debt Service	297,069
Income Taxes	635,689
Grants and Entitlements not Restricted to Specific Programs	3,382,884
Gifts and Donations	72,435
Investment Earnings	18,767
Miscellaneous	25,877
<i>Total General Revenues</i>	<u>6,369,527</u>
<i>Change in Net Assets</i>	303,844
Net Assets Beginning of Year	<u>3,006,743</u>
<i>Net Assets End of Year</i>	<u><u>\$ 3,310,587</u></u>

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,397,020	\$ 550,909	\$ 1,947,929
Cash and Cash Equivalents with Fiscal Agents		27,529	27,529
Materials and Supplies Inventory	7,896	3,486	11,382
Accrued Interest Receivable	516		516
Accounts Receivable		123	123
Interfund Receivable	62,510		62,510
Intergovernmental Receivable		83,199	83,199
Prepaid Items	58,882	5,192	64,074
Taxes Receivable	1,678,342	442,198	2,120,540
Income Taxes Receivable	236,709		236,709
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	16,679		16,679
Advances to Other Funds	25,000		25,000
Total Assets	\$ 3,483,554	\$ 1,112,636	\$ 4,596,190
Liabilities			
Accounts Payable	\$ 21,333	\$ 26,655	\$ 47,988
Accrued Wages and Benefits	610,861	39,105	649,966
Interfund Payable		62,510	62,510
Intergovernmental Payable	90,731	5,783	96,514
Matured Bonds Payable		15,000	15,000
Matured Interest Payable		144	144
Matured Compensated Absences Payable	26,566		26,566
Deferred Revenue	1,561,272	408,890	1,970,162
Advances from Other Funds		25,000	25,000
Total Liabilities	2,310,763	583,087	2,893,850
Fund Balances			
Reserved for:			
Encumbrances	9,184	57,376	66,560
Advances	25,000		25,000
Property Taxes	159,278	37,162	196,440
Budget Stabilization	16,679		16,679
Unreserved, Designated		259,626	259,626
Unreserved, Undesignated, Reported in:			
General Fund	962,650		962,650
Special Revenue Funds		68,933	68,933
Debt Service Funds		94,116	94,116
Capital Projects Funds		12,336	12,336
Total Fund Balances	1,172,791	529,549	1,702,340
Total Liabilities and Fund Balances	\$ 3,483,554	\$ 1,112,636	\$ 4,596,190

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ 1,702,340
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		4,681,915
Taxes and Intergovernmental Receivables that do not provide financial resources are not reported as revenues in governmental fund.		79,533
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(50,657)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Capital Leases Payable	(6,912)	
General Obligation Bonds Payable	(2,675,250)	
Compensated Absences Payable	(420,382)	
	<u> </u>	<u>(3,102,544)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 3,310,587</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	All Other Governmental Funds	Total Governmental Funds
Revenues:			
Property and Other Local Taxes	\$ 1,749,609	\$ 450,795	\$ 2,200,404
Income Tax	593,481		593,481
Intergovernmental	3,306,166	539,446	3,845,612
Interest	18,718	49	18,767
Tuition and Fees	39,358		39,358
Rent	1,286		1,286
Extracurricular Activities		124,467	124,467
Gifts and Donations	33,573	38,862	72,435
Customer Sales and Services	2,710	154,647	157,357
Miscellaneous	25,877		25,877
<i>Total Revenues</i>	<u>5,770,778</u>	<u>1,308,266</u>	<u>7,079,044</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,538,414	180,772	2,719,186
Special	622,149	159,050	781,199
Vocational	226,030		226,030
Other	103,382		103,382
Support Services:			
Pupils	122,898	47,537	170,435
Instructional Staff	223,467	71,327	294,794
Board of Education	10,050		10,050
Administration	566,984	66,335	633,319
Fiscal	162,087	10,279	172,366
Operation and Maintenance of Plant	415,011	102,708	517,719
Pupil Transportation	353,039		353,039
Central	9,170	9,000	18,170
Operation of Non-Instructional Services	47,530	215,521	263,051
Extracurricular Activities	155,526	138,926	294,452
Debt Service:			
Principal	25,320	150,086	175,406
Interest	19,444	148,160	167,604
<i>Total Expenditures</i>	<u>5,600,501</u>	<u>1,299,701</u>	<u>6,900,202</u>
<i>Excess of Revenues Over Expenditures</i>	<u>170,277</u>	<u>8,565</u>	<u>178,842</u>
Other Financing Sources and Uses:			
Transfers In		35,811	35,811
Transfers Out	(35,811)		(35,811)
<i>Total Other Financing Sources and Uses</i>	<u>(35,811)</u>	<u>35,811</u>	
<i>Net Change in Fund Balances</i>	134,466	44,376	178,842
Fund Balance at Beginning of Year	1,038,325	485,173	1,523,498
<i>Fund Balance at End of Year</i>	<u>\$ 1,172,791</u>	<u>\$ 529,549</u>	<u>\$ 1,702,340</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ 178,842

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Capital Assets	173,504	
Depreciation	<u>(261,009)</u>	(87,505)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(14,492)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Extracurricular	(701)	
Intergovernmental	(7,575)	
Income Taxes	42,208	
Delinquent Property Taxes	<u>33,471</u>	67,403

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

Bonds Payable	150,086	
Capital Leases Payable	<u>25,320</u>	175,406

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(11,101)	
Compensated Absences Payable	<u>(4,709)</u>	(15,810)

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 303,844</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property and Other Local Taxes	\$ 1,696,435	\$ 1,650,088	\$ 1,650,088	\$ -
Income Tax	598,401	565,286	565,286	-
Intergovernmental	3,311,430	3,306,166	3,306,166	-
Interest	35,537	32,497	32,497	-
Tuition and Fees	38,742	39,419	39,419	-
Rent	930	1,286	1,286	-
Gifts and Donations	46,294	33,573	33,573	-
Customer Sales and Services	2,750	2,710	2,710	-
Miscellaneous	14,395	25,277	25,277	-
<i>Total Revenues</i>	<u>5,744,914</u>	<u>5,656,302</u>	<u>5,656,302</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,543,045	2,507,056	2,505,877	1,179
Special	599,423	618,633	618,506	127
Vocational	234,039	224,039	220,060	3,979
Other	80,000	103,500	103,382	118
Support Services:				
Pupils	115,575	123,595	123,589	6
Instructional Staff	238,210	224,704	221,344	3,360
Board of Education	9,505	10,605	10,551	54
Administration	579,760	559,760	558,938	822
Fiscal	149,580	151,780	148,716	3,064
Operation and Maintenance of Plant	488,926	459,926	448,132	11,794
Pupil Transportation	334,443	351,364	351,300	64
Central	22,480	22,480	9,133	13,347
Operation of Non-Instructional Services	45,064	45,064	44,764	300
Extracurricular Activities	101,370	153,170	150,562	2,608
<i>Total Expenditures</i>	<u>5,541,420</u>	<u>5,555,676</u>	<u>5,514,854</u>	<u>40,822</u>
<i>Excess of Revenues Over Expenditures</i>	<u>203,494</u>	<u>100,626</u>	<u>141,448</u>	<u>40,822</u>
Other Financing Sources and Uses:				
Transfers In	1,104	-	-	-
Proceeds from Sale of Fixed Assets	623	-	-	-
Refund of Prior Year Expenditures	1,500	836	836	-
Advances In	30,348	44,418	44,418	-
Transfers Out	(40,000)	(40,000)	(35,811)	4,189
Advances Out	-	(33,000)	(32,509)	491
<i>Total Other Financing Sources and Uses</i>	<u>(6,425)</u>	<u>(27,746)</u>	<u>(23,066)</u>	<u>4,680</u>
<i>Net Change in Fund Balances</i>	197,069	72,880	118,382	45,502
Fund Balance at Beginning of Year	1,264,990	1,264,990	1,264,990	-
Prior Year Encumbrances Appropriated	13,250	13,250	13,250	-
<i>Fund Balance at End of Year</i>	<u>\$ 1,475,309</u>	<u>\$ 1,351,120</u>	<u>\$ 1,396,622</u>	<u>\$ 45,502</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 24,914	\$ 31,291
<i>Total Assets</i>	<u>24,914</u>	<u>31,291</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	-	31,291
<i>Total Liabilities</i>	<u>-</u>	<u>31,291</u>
Net Assets		
Held in Trust for Scholarships	<u>24,914</u>	<u>-</u>
<i>Total Net Assets</i>	<u><u>\$ 24,914</u></u>	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	Private Purpose Trust
Additions:	
Interest	\$ 240
Miscellaneous	500
<i>Total Additions</i>	740
Deductions:	
Payments in Accordance with Trust Agreements	650
<i>Total Deductions</i>	650
Change in Net Assets:	90
Net Assets Beginning of Year	24,824
<i>Net Assets End of Year</i>	\$ 24,914

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The McComb Local School District (the 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 District is a local school district as defined by § 3311.03 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 534th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 32 classified employees and 69 certified teaching personnel, who provide services to 807 students and other community members. The board oversees the operations of the District's four instructional/support facilities.

The Reporting Entity

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

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

The District participates in four jointly governed organizations and three insurance pools, and is associated with a related organization. These organizations include the Northwest Ohio Area Computer Services Cooperative, Millstream Cooperative Vocational Career Center, the Northwestern Ohio Educational Research Council, Inc., Northwest Ohio Special Education Regional Resource Center, Ohio School Plan, Hancock County Schools Health Benefit Fund and Trust, Sheakley Uniservice, Inc., and the McComb Community Library. Information about these organizations is presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 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. Following are the more significant of the District's accounting policies.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

A. Basis of Presentation

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds

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

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

The other governmental funds of the District account for grants, other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's private purpose trust fund accounts for a program to assist students in attending music camp. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations. The District's agency funds account for various student managed activities.

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 District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) 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.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the 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, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 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 been reported as deferred revenue.

Expenditures/Expenses

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund/function level for the general fund and the fund level for all other budgeted funds. Any budgetary modifications at these levels may only be made by the Board of Education.

The certificates of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to nonparticipating investment contracts, which are certificates of deposit, 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 following funds in fiscal year 2004, was \$18,718 for the General Fund and \$49 to other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and school supplies held for resale and are expensed when used. The cost of inventory items is recorded as an expenditure when purchased.

H. 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, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The 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 capitalized. Interest incurred during construction of capital assets is also not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

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

K. 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 the District will compensate the employees for the benefits through paid time off or some other means. The

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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 District's termination policy. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

L. 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, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. Fund Balance Reserves

The District reserves those portions of fund equity 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 reserves have been established for property taxes, advances, encumbrances, and budget stabilization.

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 monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

O. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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.

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. 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 District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES, RESTATEMENT OF FUND BALANCE AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2003	\$ 1,029,731	\$ 499,689	\$ 1,529,420
GASB Statement 34 Adjustment			
Change in Fund Structure - Enterprise		(34,675)	(34,675)
Interpretation 6 Adjustments:			
Compensated Absences Payable	8,594	20,159	28,753
<i>Adjusted Fund Balance</i>	\$ 1,038,325	\$ 485,173	1,523,498
GASB 34 Adjustments:			
Deferred Revenue			12,130
Capital Assets			4,783,912
Long-Term Liabilities			(3,312,797)
<i>Governmental Activities Net Assets at June 30, 2003</i>			\$ 3,006,743

C. Compliance

The District did not certify all disbursements as required by Ohio Revised Code § 5705.41(D).

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

Net Change in Fund Balance Major Governmental Fund	
	General
GAAP Basis	\$ 134,466
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	240,655
Accrued FY 2004, Not Yet Received in Cash	(354,295)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(579,989)
Accrued FY 2004, Not Yet Paid in Cash	682,713
Advances Net	11,909
Encumbrances Outstanding at Year End (Budget Basis)	(17,077)
<i>Budget Basis</i>	\$ 118,382

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal 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 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 accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase 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 District, and must be purchased with the expectation that it will be held to maturity.

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

At fiscal year end, the School District had \$12,385 in cash and cash equivalents held by the Hancock County Educational Service Center which is included on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

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."

At fiscal year-end, the carrying amount of the District's deposits was \$2,035,957 and the bank balance was \$2,091,056. Of the bank balance, \$200,000 was covered by Federal Depository Insurance and \$1,891,056 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the

**McCOMB LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents
GASB Statement No. 9	\$ 2,048,342
Cash and Cash Equivalents with Educational Service Center	(12,385)
GASB Statement No. 3	\$ 2,035,957

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Hancock County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the

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**Notes to the Basic Financial Statements
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(Continued)**

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 represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were 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, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$159,278 in the General Fund, \$20,912 in the Debt Service Fund, and \$16,250 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$59,757 in the General Fund, \$9,295 in the Debt Service Fund, and \$7,131 in the 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	\$ 50,973,510	65.23%	\$ 52,111,560	67.36%
Industrial/Commercial	6,808,970	8.71%	6,797,620	8.79%
Public Utility	4,878,210	6.24%	4,556,810	5.89%
Tangible Personal	15,486,883	19.82%	13,890,703	17.96%
Total Assessed Value	\$ 78,147,573	100.00%	\$ 77,356,693	100.00%
 Tax rate per \$1,000 of assessed valuation	\$ 35.16		\$ 35.26	

7. INCOME TAX

The District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1984, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, income taxes, intergovernmental, accounts (rent and student fees), and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. As of June 30, 2004, the District did not have any intergovernmental receivables.

**McCOMB LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

9. CAPITAL ASSETS

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

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 145,248			\$ 145,248
<i>Total Nondepreciable Capital Assets</i>	<u>145,248</u>	<u>-</u>	<u>-</u>	<u>145,248</u>
Depreciable Capital Assets				
Land Improvements	313,719			313,719
Buildings and Building Improvements	4,610,750	\$ 50,993		4,661,743
Furniture, Fixtures, and Equipment	1,506,518	68,811	\$ 124,614	1,450,715
Vehicles	589,382	53,700	31,166	611,916
<i>Total Depreciable Capital Assets</i>	<u>7,020,369</u>	<u>173,504</u>	<u>155,780</u>	<u>7,038,093</u>
Less Accumulated Depreciation				
Land Improvements	77,175	14,543		91,718
Buildings and Building Improvements	926,947	124,103		1,051,050
Furniture, Fixtures, and Equipment	1,008,726	82,641	124,614	966,753
Vehicles	368,857	39,722	16,674	391,905
<i>Total Accumulated Depreciation</i>	<u>2,381,705</u>	<u>261,009</u>	<u>141,288</u>	<u>2,501,426</u>
Depreciable Capital Assets, Net	4,638,664	(87,505)	14,492	4,536,667
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 4,783,912</u>	<u>\$ (87,505)</u>	<u>\$ 14,492</u>	<u>\$ 4,681,915</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 55,141
Vocational	241
Support Services:	
Board of Education	91,226
Administration	1,966
Fiscal	1,356
Operation and Maintenance of Plant	48,001
Pupil Transportation	34,816
Operations of Non-Instruction	10,865
Extracurricular Activities	17,397
<i>Total Depreciation Expense</i>	<u>\$ 261,009</u>

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**Notes to the Basic Financial Statements
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(Continued)**

The District restated Capital Assets at the beginning of the year as follows:

Balance at June 30, 2003		\$ 7,161,279
Restatement		4,338
<i>Balance, Restated</i>		<u>\$ 7,165,617</u>

10. RISK MANAGEMENT

The 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 District contracted for the following insurance coverage:

Coverage provided by Mid-American Fire and Casualty Company is as follows:

Buildings and Contents (\$5,000 deductible)	\$22,476,222
Inland Marine Coverage (\$250 deductible)	253,536
Commercial Articles (\$500 deductible)	49,839
Computers (\$500 deductible)	185,000
Contractor's Equipment (\$500 deductible)	18,697

Coverage provided by The Ohio School Plan is as follows:

Automobile Liability	\$ 1,000,000
Excess	1,000,000
Violence Coverage Plan Aggregate	1,000,000
Aggregate and Violent Acts	500,000
General School District Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Employees Benefits Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Employers Liability	1,000,000

Coverage provided by Twin City Fire Insurance Company is as follows:

Excess Liability	\$2,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2004, the District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The District participates in the Hancock County Schools Health Benefit Fund and Trust (Trust), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The District pays monthly premiums to the Trust for employee medical and dental insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the

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**Notes to the Basic Financial Statements
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(Continued)**

Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2004, the District participated in the Sheakley Workers' Compensation Group Rating Program, an insurance purchasing pool. The program is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the program.

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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 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 percent 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 fifty 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 selected 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.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

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(Continued)**

The District's required contributions for pension obligations for the DBP fiscal years ended June 30, 2004, 2003, and 2002 were \$440,617, \$375,228 and \$264,414, respectively; 92 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3746.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the District was required to contribute at an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 9.09 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$75,124, \$55,172, and \$35,326 respectively; 76 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 State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, two of the Board members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund.

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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Effective July 1, 2004, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

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

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$24,500. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .35072, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty-three days for all employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of fifty-five and three-fourth days.

B. Health Care Benefits

The District provides medical and dental insurance to all employees through the Hancock County Schools Health Benefit Fund and Trust. Depending upon the plan chosen, the employees share

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**Notes to the Basic Financial Statements
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(Continued)**

the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

14. LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Balance at 06/30/03	Additions	Deductions	Balance at 06/30/04	Due Within One Year
Loan Payable	\$ 130,336	\$ -	\$ 35,086	\$ 95,250	\$ 36,766
FY 1998 School Improvement Bonds	2,695,000	-	115,000	2,580,000	120,000
Compensated Absences	415,673	420,382	415,673	420,382	-
Intergovernmental Payabl	39,556	-	39,556	-	-
Capital Leases Payable	32,232	-	25,320	6,912	6,912
<i>Total</i>	<u>\$3,312,797</u>	<u>\$ 420,382</u>	<u>\$ 630,635</u>	<u>\$3,102,544</u>	<u>\$ 163,678</u>

Loan Payable - On August 8, 2001, the District obtained a loan, in the amount of \$180,000, for various capital improvements. The loan has an interest rate of 4.72 percent. The loan matures on August 8, 2006, and is being repaid from the Bond Retirement Debt Service Fund.

FY 1998 School Improvement Bonds - On July 1, 1997, the District issued \$3,250,000 in voted general obligation bonds for constructing, renovating, and adding to buildings. The bond issue included serial and term bonds, in the amount of \$1,705,000 and \$1,545,000, respectively. The bonds were issued for a twenty-one year period, with final maturity during fiscal year 2019.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption on December 1 in each of the years 2011 through 2017, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2011	\$ 185,000
2012	195,000
2013	205,000
2014	215,000
2015	185,000
2016	195,000
2017	205,000

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The term bonds are also subject to prior redemption on or after December 1, 2007, by and at the sole option of the District, either in whole on any date or in part on any payment date, in integral multiples of \$5,000, plus accrued interest to the redemption date:

Redemption Date (Dates Inclusive)	Redemption Prices
December 1, 2007 through November 30, 2008	101%
December 1, 2009 and thereafter	100%

Compensated absences and intergovernmental payables, representing the District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund.

The District's overall debt margin was \$4,405,795 with an unvoted debt margin of \$53,664 at June 30, 2004.

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

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$ 156,766	\$ 141,221	\$ 297,987
2006	173,532	133,649	307,181
2007	159,952	125,416	285,368
2008	145,000	118,216	263,216
2009	155,000	109,503	264,503
2010 - 2014	925,000	384,004	1,309,004
2015 - 2019	960,000	121,275	1,081,275
<i>Total</i>	\$ 2,675,250	\$ 1,133,284	\$ 3,808,534

15. CAPITALIZED LEASES – LESSEE DISCLOSURE

The District has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements. The equipment acquired by lease has been capitalized in the general fixed assets account group, in the amount of \$82,254. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Government Wide Financial Statements. Principal payments were made in fiscal year 2004, in the amount of \$25,320.

Fiscal Year Ending June 30,	
2005	\$ 7,004
Less Amount Representing Interest	(92)
Present Value of Net Minimum Lease Payments	\$ 6,912

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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2004, the District paid \$10,812 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Cooperative Vocational Career Center

The Millstream Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative from the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, Pam Barber, who serves as Treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

C. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

D. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is made up of school districts from Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood counties. The SERRC is governed by a thirty-three member board consisting of twenty-six superintendents, one director of student services, one parent representative, one representative from a community school, one representative from a mental

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health board, one representative from a parent advisory council, one representative from Bowling Green State University, and one representative from the University of Toledo. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from David Michel, Eastwood Local Schools, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

17. INSURANCE POOLS

A. Ohio School Plan

The District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, Treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative, which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. Hancock County Schools Health Benefit Fund and Trust

The Hancock County Schools Health Benefit Fund and Trust (Trust) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Trust is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to participants. The Administrative Committee of the Trust consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each member decides which plans offered by the Administrative Committee that will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Tim Smith, Ohio Benefits Group, 545 Pearl Street, Bowling Green, Ohio 43402.

C. Sheakley Uniservice, Inc.

The District is a member of the Sheakley Workers' Compensation Group Rating Program. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers. Each year, the District pays an enrollment fee to cover the costs of administering the program.

18. RELATED ORGANIZATION

The McComb Community Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the McComb Board of Education. The Board of Trustees possesses its own contracting and budgeting

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authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the McComb Community Library, Jackie Rader, who serves as Treasurer, 113 South Todd Street, McComb, Ohio 45858.

19. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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 year end. These amounts must be carried forward to be used for the same purposes in future years. . In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside at year end.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Cash Balance as of June 30, 2003	\$ (62,114)	\$ -	\$ 16,679
Current Year Set-aside Requirement	112,837	112,837	-
Current Year Offset	-	(112,837)	-
Qualifying Disbursements	(369,373)	-	-
Amount Carried Forward to Fiscal Year 2005	<u>\$ (318,650)</u>	<u>\$ -</u>	<u>\$ 16,679</u>
Set Aside Reserve Balance, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,679</u>

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

20. SCHOOL FUNDING DECISION

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

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

21. INTERFUND TRANSFERS

During the year ended June 30, 2004, the District transferred \$35,811 from the General Fund to the Severance Payments Non-major Governmental Fund.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

22. CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the District as defendant.

23. SUBSEQUENT EVENTS

Starting January 1, 2005 the District began collecting an additional 0.5 percent income tax for general operations. The levy is for a 5 year period.



**Auditor of State
Betty Montgomery**

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

McComb Local School District
Hancock County
328 South Todd Street, P.O. Box 877
McComb, Ohio 45858-0877

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McComb Local School District, Hancock County, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 23, 2005 in which we disclosed the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 23, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the District's management in a separate letter dated February 23, 2005.

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



Betty Montgomery
Auditor of State

February 23, 2005

McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY

Schedule of Findings
June 30, 2004

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty-eight percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the District followed the aforementioned exceptions. Failure to certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board. To improve controls over

disbursements, we recommend all District disbursements received prior certification of the Treasurer and the Board periodically review the expenditures made to ensure they are within the appropriations adopted by the Board, certified by the Treasurer, and recorded against appropriations.

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Schedule of Prior Audit Findings
For the Fiscal 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; <i>Explain:</i>
2003-001	ORC § 5705.41(D) failure to certify funds	No	The finding has not been corrected and is repeated in this report as finding 2004-001.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**McCOMB LOCAL SCHOOL DISTRICT
HANCOCK 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
MARCH 22, 2005**