



**Auditor of State
Betty Montgomery**

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

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

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

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

As described in Note 18, for the fiscal year ended June 30, 2004, the District reclassified activity formerly reported in the enterprise funds as a business type activity to now be reported in the special revenue funds as a governmental activity.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 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 Discussion and Analysis and the respective budgetary comparison for the General Fund are not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

March 7, 2005

SOUTHWEST LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The discussion and analysis of Southwest Local School 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 notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June, 1999.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$3,194,664 which represents a 19.7% decrease from 2003.
- General revenues accounted for \$26,099,301 in revenue or 86.5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,086,439 or 13.5% of total revenues of \$30,185,740.
- Total assets of governmental activities decreased by \$2,539,657 as taxes receivable decreased by \$47,169 while cash and other receivables decreased by \$2,918,794.
- The District had \$33,380,404 in expenses related to governmental activities; only \$4,086,439 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$26,099,301 were also used to provide for these programs.
- As a major fund, the General Fund had \$23,799,721 in revenues and \$26,040,285 in expenditures. The General Fund's balance decreased from \$8,730,732 to \$6,496,607. As a major fund, the Debt Service Fund had \$1,914,032 in revenues and \$1,956,830 in expenditures. The Debt Service Fund's balance decreased from \$2,074,584 to \$2,031,786.

Using the Basic Financial Statements

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

The *Statement of Net Assets* and *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 the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General and Debt Service Funds are the major funds of the District.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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.

In the *Statement of Net Assets* and the *Statement of Activities*, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the

Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

FINANCIAL INFORMATION

The District’s accounting system is organized on a “fund” basis. Each fund is a distinct, self-balancing entity. Records for general governmental operations are maintained on a budgetary basis system of accounting as prescribed by State statute. The Budgetary basis accounting differs from generally accepted accounting principles [GAAP] as promulgated by the Governmental Accounting Standards Board [GASB].

The District as a Whole

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

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

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$26,044,639	\$23,096,918
Capital Assets	<u>25,505,784</u>	<u>25,913,848</u>
Total Assets	<u>51,550,423</u>	<u>49,010,766</u>
Liabilities		
Long-Term Liabilities	23,521,421	23,538,149
Other Liabilities	<u>11,823,143</u>	<u>12,461,422</u>
Total Liabilities	<u>35,344,564</u>	<u>35,999,571</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	4,655,792	5,983,856
Restricted	5,087,398	3,763,026
Unrestricted	<u>6,462,669</u>	<u>3,264,313</u>
Total Net Assets	<u>\$16,205,859</u>	<u>\$13,011,195</u>

Total assets decreased \$2,539,657. Equity in pooled cash and cash equivalents decreased \$2,892,966. Taxes receivable decreased \$47,169. Total liabilities increased \$655,007, resulting in a net asset decrease of \$3,194,664.

Table 2 shows the change in net assets for fiscal year 2004.

Table 2
Changes in Net Assets

	Governmental Activities <u>2003 Restated</u>	Governmental Activities <u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,282,384	\$1,318,536
Operating Grants	2,032,076	2,691,336
Capital Grants	54,305	76,567
General Revenue:		
Property Taxes	13,509,467	11,733,942
Grants and Entitlements	13,252,085	13,528,920
Other	<u>941,206</u>	<u>836,439</u>
Total Revenues	<u>31,071,523</u>	<u>30,185,740</u>
Program Expenses:		
Instruction	16,748,208	18,018,839
Support Services:		
Pupil and Instructional Staff	1,820,954	2,834,778
School and General Administration, Fiscal and Business	2,975,126	3,341,762
Operations and Maintenance	3,026,500	3,335,649
Pupil Transportation	1,526,763	1,889,974
Central	46,547	59,348
Operation of Non-Instructional Services	1,792,834	1,907,606
Extracurricular Activities	595,231	947,309
Interest and Fiscal Charges	<u>1,036,228</u>	<u>1,045,139</u>
Total Expenses	<u>29,568,391</u>	<u>33,380,404</u>
Increase (Decrease) in Net Assets	<u>\$1,503,132</u>	<u>(\$3,194,664)</u>

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general, debt service and capital projects purposes and grants and entitlements comprised 83.7% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not collect additional property taxes on the increase in property value due to the increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 38.9% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 54.0% of total governmental program expenses. Support services expenses were 34.3% of total governmental program expenses. All other expenses and interest expense was 11.7%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	<u>2003 Restated</u>	<u>2004</u>	<u>2003 Restated</u>	<u>2004</u>
Instruction	\$16,748,208	\$18,018,839	\$15,473,545	\$16,104,904
Support Services:				
Pupil and Instructional Staff	1,820,954	2,834,778	1,608,560	2,412,574
School and General Administration,				
Fiscal and Business	2,975,126	3,341,762	2,869,024	2,844,105
Operations and Maintenance	3,026,500	3,335,649	2,996,728	3,303,697
Pupil Transportation	1,526,763	1,889,974	1,462,174	1,796,217
Central	46,547	59,348	18,275	11,552
Operation of Non-Instructional Services	1,792,834	1,907,606	261,245	1,488,358
Extracurricular Activities	595,231	947,309	473,847	287,419
Interest and Fiscal Charges	<u>1,036,228</u>	<u>1,045,139</u>	<u>1,036,228</u>	<u>1,045,139</u>
 Total Expenses	 <u>\$29,568,391</u>	 <u>\$33,380,404</u>	 <u>\$26,199,626</u>	 <u>\$29,293,965</u>

The District's Major Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$29,786,211 and expenditures and other financing uses of \$33,724,386. The net change in fund balance for the year was (\$3,938,175), or (27.8%).

The General Fund balance decreased \$2,234,125 due to a decrease in intergovernmental revenue and an increase in instruction expense. The Debt Service Fund balance decreased \$42,798 due to an increase in debt payments.

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 2004, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$24,793,561, below original budget estimates of \$24,893,451. Of this \$99,890 difference, most was due to an overestimate for taxes and extracurricular activities revenue.

The District's ending unobligated cash balance was \$350,971 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$25,913,848 invested in land, buildings and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Land	\$462,300	\$462,300
Construction in Progress	667,125	0
Buildings and Improvements	21,956,037	23,281,642
Furniture and Equipment	<u>2,420,322</u>	<u>2,169,906</u>
Total Net Assets	<u>\$25,505,784</u>	<u>\$25,913,848</u>

The increase in capital assets is due to \$1,708,893 in acquisitions, offset by the recognition of \$1,300,829 in depreciation expense. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$19,929,992 in bonds outstanding, \$458,351 due within one year. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2004
General Obligation Bonds:		
School Facilities Bonds	\$2,319,992	\$1,809,992
School Improvement Bonds I	9,240,000	9,030,000
School Improvement Bonds II	<u>9,290,000</u>	<u>9,090,000</u>
Total	<u>\$20,849,992</u>	<u>\$19,929,992</u>

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not “equitable” nor “adequate”. The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court’s concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

In addition, the District’s system of budgeting and internal controls is well regarded. All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gregory P. Bybee, Treasurer at Southwest Local School District, 230 South Elm Street, Harrison, Ohio 45030 Or E-mail at bybee_g@hccanet.org.

Southwest Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$10,730,756
Restricted Cash and Investments	177,561
Receivables:	
Taxes	12,057,566
Accounts	15,229
Intergovernmental	83,770
Inventory	32,036
Nondepreciable Capital Assets	462,300
Depreciable Capital Assets, Net	<u>25,451,548</u>
 Total Assets	 <u>49,010,766</u>
Liabilities:	
Accounts Payable	21,463
Accrued Wages and Benefits	3,129,862
Accrued Interest Payable	122,147
Deferred Revenue	9,187,950
Long-Term Liabilities:	
Due Within One Year	711,114
Due In More Than One Year	<u>22,827,035</u>
 Total Liabilities	 <u>35,999,571</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,983,856
Restricted for:	
Special Revenue	338,881
Debt Service	1,975,560
Capital Projects	1,271,024
Set-Aside	177,561
Unrestricted	<u>3,264,313</u>
 Total Net Assets	 <u>\$13,011,195</u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$14,869,833	\$58,771	\$224,076	\$0	(\$14,586,986)
Special	2,647,306	1,660	909,002	0	(1,736,644)
Vocational	239,364	0	0	0	(239,364)
Other	262,336	27,526	692,900	0	458,090
Support Services:					
Pupil	1,414,686	92,548	138,164	0	(1,183,974)
Instructional Staff	1,420,092	0	191,492	0	(1,228,600)
General Administration	11,264	0	0	0	(11,264)
School Administration	2,722,432	456,021	41,636	0	(2,224,775)
Fiscal	608,066	0	0	0	(608,066)
Operations and Maintenance	3,335,649	22,120	9,832	0	(3,303,697)
Pupil Transportation	1,889,974	0	17,190	76,567	(1,796,217)
Central	59,348	0	47,796	0	(11,552)
Operation of Non-Instructional Services	1,907,606	0	419,248	0	(1,488,358)
Extracurricular Activities	947,309	659,890	0	0	(287,419)
Interest and Fiscal Charges	1,045,139	0	0	0	(1,045,139)
Total Governmental Activities	33,380,404	1,318,536	2,691,336	76,567	(29,293,965)
Totals	\$33,380,404	\$1,318,536	\$2,691,336	\$76,567	(\$29,293,965)

General Revenues:

Property Taxes Levied for:

General Purposes	9,693,811
Debt Service Purposes	1,777,587
Capital Projects Purposes	262,544
Grants and Entitlements not Restricted to Specific Programs	13,528,920
Payment in Lieu of Taxes	14,963
Unrestricted Contributions	1,312
Investment Earnings	236,455
Other Revenues	583,709

Total General Revenues and Transfers 26,099,301

Change in Net Assets (3,194,664)

Net Assets Beginning of Year 16,205,859

Net Assets End of Year \$13,011,195

See accompanying notes to the basic financial statements.

Southwest Local School District
 Balance Sheet
 Governmental Funds
 June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$7,245,750	\$1,614,686	\$1,870,320	\$10,730,756
Restricted Cash and Investments	177,561	0	0	177,561
Receivables:				
Taxes	9,966,870	1,819,443	271,253	12,057,566
Accounts	5,524	0	9,705	15,229
Intergovernmental	0	0	83,770	83,770
Interfund	29,420	0	0	29,420
Inventory	0	0	32,036	32,036
Total Assets	17,425,125	3,434,129	2,267,084	23,126,338
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	11,587	0	9,876	21,463
Accrued Wages and Benefits	2,718,085	0	238,856	2,956,941
Compensated Absences	203,276	0	15,447	218,723
Interfund Payable	0	0	29,420	29,420
Deferred Revenue	7,995,570	1,402,343	259,662	9,657,575
Total Liabilities	10,928,518	1,402,343	553,261	12,884,122
Fund Balances:				
Reserved for Encumbrances	46,814	0	326,897	373,711
Reserved for Inventory	0	0	32,036	32,036
Reserved for Property Tax Advances	1,971,300	417,100	56,500	2,444,900
Reserved for Set-Aside	177,561	0	0	177,561
Unreserved, Undesignated, Reported in:				
General Fund	4,300,932	0	0	4,300,932
Special Revenue Funds	0	0	358,823	358,823
Debt Service Funds	0	1,614,686	0	1,614,686
Capital Projects Funds	0	0	939,567	939,567
Total Fund Balances	6,496,607	2,031,786	1,713,823	10,242,216
Total Liabilities and Fund Balances	\$17,425,125	\$3,434,129	\$2,267,084	\$23,126,338

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance		\$10,242,216
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		25,913,848
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	424,716	
Intergovernmental	<u>44,909</u>	
		469,625
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(122,147)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Pension Obligation	(172,921)	
Compensated Absences	<u>(1,950,701)</u>	
		(2,123,622)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(21,368,725)</u>
Net Assets of Governmental Activities		<u>\$13,011,195</u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$9,344,571	\$1,711,666	\$252,988	\$11,309,225
Tuition and Fees	87,957	0	0	87,957
Investment Earnings	216,636	0	19,819	236,455
Intergovernmental	14,069,988	202,366	2,047,781	16,320,135
Extracurricular Activities	0	0	201,225	201,225
Charges for Services	0	0	1,007,234	1,007,234
Other Revenues	80,569	0	535,191	615,760
Total Revenues	23,799,721	1,914,032	4,064,238	29,777,991
Expenditures:				
Current:				
Instruction:				
Regular	12,735,139	0	462,313	13,197,452
Special	2,185,154	0	365,406	2,550,560
Vocational	238,802	0	0	238,802
Other	255,596	0	6,724	262,320
Support Services:				
Pupil	962,171	0	420,544	1,382,715
Instructional Staff	1,202,952	0	159,740	1,362,692
General Administration	11,264	0	0	11,264
School Administration	2,407,993	2,963	173,397	2,584,353
Fiscal	564,252	26,967	2,520	593,739
Operations and Maintenance	3,252,853	0	1,600	3,254,453
Pupil Transportation	1,688,071	0	0	1,688,071
Central	27,005	0	32,343	59,348
Operation of Non-Instructional Services	2,556	0	1,803,818	1,806,374
Extracurricular Activities	506,477	0	407,292	913,769
Capital Outlay	0	0	1,889,699	1,889,699
Debt Service:				
Principal Retirement	0	920,000	0	920,000
Interest and Fiscal Charges	0	1,006,900	0	1,006,900
Total Expenditures	26,040,285	1,956,830	5,725,396	33,722,511
Excess of Revenues Over (Under) Expenditures	(2,240,564)	(42,798)	(1,661,158)	(3,944,520)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	4,565	0	1,780	6,345
Transfers In	1,874	0	1	1,875
Transfers (Out)	0	0	(1,875)	(1,875)
Total Other Financing Sources (Uses)	6,439	0	(94)	6,345
Net Change in Fund Balance	(2,234,125)	(42,798)	(1,661,252)	(3,938,175)
Fund Balance Beginning of Year	8,730,732	2,074,584	3,375,075	14,180,391
Fund Balance End of Year	\$6,496,607	\$2,031,786	\$1,713,823	\$10,242,216

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds (\$3,938,175)

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

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	1,708,892	
Depreciation Expense	<u>(1,300,828)</u>	408,064

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

Delinquent Property Taxes	424,716	
Intergovernmental	<u>(23,312)</u>	401,404

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 920,000

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (38,239)

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

Pension Obligation	(53,084)	
Compensated Absences	<u>(894,634)</u>	(947,718)

Change in Net Assets of Governmental Activities (\$3,194,664)

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$8,174	\$48,764
Receivables:		
Accounts	0	185
Total Assets	<u>8,174</u>	<u>\$48,949</u>
Liabilities:		
Accounts Payable	44	1,080
Other Liabilities	0	47,869
Total Liabilities	<u>44</u>	<u>\$48,949</u>
Net Assets:		
Held in Trust	<u>8,130</u>	
Total Net Assets	<u>\$8,130</u>	

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Donations	<u>\$7,500</u>
Total Additions	<u>7,500</u>
Deductions:	
Regular	1,425
FE5	44
Other	<u>9,183</u>
Total Deductions	<u>10,652</u>
Change in Net Assets	(3,152)
Net Assets Beginning of Year	<u>11,282</u>
Net Assets End of Year	<u><u>\$8,130</u></u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LOCAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE DISTRICT

The Southwest Local School District (the "District") was formed in 1954 with the consolidation of Harrison, Crosby and Whitewater School Districts. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 241 non-certificated personnel and 147 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District enrollment for October 2003 was 3,972. It currently operates six elementary schools, one junior school (grades 7-8), and one comprehensive high school (grades 9-12).

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

This District is associated with two organizations which are defined as jointly governed organizations. These organizations are the Hamilton/Clermont Cooperative Association and Great Oaks Institute of Technology.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or 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 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 each business segment or governmental function is self-financing or draws from the general revenues of the District.

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.

Fiduciary Funds are reported using the economic resources measurement focus.

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. The focus of government 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.

Governmental Funds

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

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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

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. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

3. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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, included 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 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 year end: property taxes available for advance, grants and interest.

Deferred Revenue

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

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$236,455.

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.

INVENTORY

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

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District increased the capitalization threshold for fiscal year 2004 from \$500 to \$2,500. 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. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	10-45 years
Furniture and Equipment	5-20 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The 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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How earned	Not Eligible	20 days	2-25 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	20 days	25 days
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	None	None
<u>Sick Leave</u>	<u>Certified</u>	<u>Administers</u>	<u>Non-certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	270 days	270 days	275 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

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.

INTERFUND ACTIVITY

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

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, budgetary set-asides, and property tax advances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

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.

RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

4. CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies - Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Deposits – At the year end, the carrying amount of the District's deposits was \$2,069,063. The bank balance of deposits was \$2,503,615 of which \$100,000 was covered by federal depository insurance. The remaining balance was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
Repurchase Agreements	\$0	\$0	\$984,974	\$984,974
Federal Agency Security	0	0	7,298,466	7,298,466
State Treasury Pool*	<u>0</u>	<u>0</u>	<u>0</u>	<u>612,752</u>
Total Investments	<u>\$0</u>	<u>\$0</u>	<u>\$8,283,440</u>	<u>\$8,896,192</u>

*The District's investment in the Ohio State Treasury Pool is not categorized because it is not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

5. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2004, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2004, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The Hamilton County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2004. Delinquent property taxes collected within 60 days of the fiscal year end are included as a receivable and tax revenue on the fund financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$1,971,300 for General Fund, \$417,100 for Debt Service and \$56,500 for Capital Projects, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2004 operations. The amount available for advance at June 30, 2003 was \$2,648,300 for General Fund, \$585,400 for Debt Service and \$76,100 for Capital Projects, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2003 operations.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$372,752,200
Public Utility Personal	18,487,150
Tangible Personal Property	<u>49,197,293</u>
Total	<u>\$440,436,643</u>

6. RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

7. CAPITAL ASSETS

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

	Beginning Balance	Prior Period Adjustment	Restated Beginning Balance	Additions	Deductions	Ending Balance
Government Activities						
<i>Capital Assets Not Being Depreciated:</i>						
Land	\$470,284	(\$7,984)	\$462,300	\$0	\$0	\$462,300
Construction in Progress	667,125	0	667,125	1,517,559	2,184,684	0
Total Capital Assets Not Being Depreciated	<u>1,137,409</u>	<u>(7,984)</u>	<u>1,129,425</u>	<u>1,517,559</u>	<u>2,184,684</u>	<u>462,300</u>
<i>Capital Assets Being Depreciated:</i>						
Buildings and Improvements	37,226,373	(5,216,851)	32,009,522	2,184,684	0	34,194,206
Equipment	7,080,675	231,999	7,312,674	191,334	0	7,504,008
Total Capital Assets Being Depreciated	<u>44,307,048</u>	<u>(4,984,852)</u>	<u>39,322,196</u>	<u>2,376,018</u>	<u>0</u>	<u>41,698,214</u>
Totals at Historical Cost	<u>45,444,457</u>	<u>(4,992,836)</u>	<u>40,451,621</u>	<u>3,893,577</u>	<u>2,184,684</u>	<u>42,160,514</u>
Less Accumulated Depreciation:						
Buildings and Improvements	13,970,108	(3,916,623)	10,053,485	859,079	0	10,912,564
Equipment	3,912,430	979,922	4,892,352	441,750	0	5,334,102
Total Accumulated Depreciation	<u>17,882,538</u>	<u>(2,936,701)</u>	<u>14,945,837</u>	<u>1,300,829</u>	<u>0</u>	<u>16,246,666</u>
Governmental Activities Capital Assets, Net	<u>\$27,561,919</u>	<u>(\$2,056,135)</u>	<u>\$25,505,784</u>	<u>\$2,592,748</u>	<u>\$2,184,684</u>	<u>\$25,913,848</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$900,267
Special	34,363
Vocational	270
Support Services:	
Instructional Staff	42,663
School Administration	57,201
Operations and Maintenance	53,174
Pupil Transportation	139,776
Operation of Non-Instructional Services	55,933
Extracurricular Activities	17,182
Total Depreciation Expense	<u>\$1,300,829</u>

8. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Prior Period Adjustment</u>	<u>Restated Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>								
<u>General Obligation Bonds:</u>								
School Facilities								
1994 5.07%	12/01/10	\$2,319,992	\$0	\$2,319,992	\$ 0	\$510,000	\$1,809,992	\$38,351
School Improvement I								
1999 4.96%	12/01/27	9,240,000	0	9,240,000	0	210,000	9,030,000	215,000
School Improvement II								
1999 5.05%	12/01/27	<u>9,290,000</u>	<u>0</u>	<u>9,290,000</u>	<u>0</u>	<u>200,000</u>	<u>9,090,000</u>	<u>205,000</u>
Total General Obligation Bonds		20,849,992	0	20,849,992	0	920,000	19,929,992	458,351
Compensated Absences		<u>1,216,653</u>	<u>1,454,818</u>	<u>2,671,471</u>	<u>1,177,369</u>	<u>240,683</u>	<u>3,608,157</u>	<u>252,763</u>
Total Governmental Activities Long-Term Liabilities		<u>\$22,066,645</u>	<u>\$1,454,818</u>	<u>\$23,521,463</u>	<u>\$1,177,369</u>	<u>\$1,160,683</u>	<u>\$23,538,149</u>	<u>\$711,114</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

<u>General Obligation Bonds</u>			
<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$458,351	\$1,465,764	\$1,924,115
2006	476,125	1,450,790	1,926,915
2007	493,957	1,434,625	1,928,582
2008	511,559	1,412,521	1,924,080
2009	1,030,000	889,868	1,919,868
2010-2014	3,995,000	3,733,987	7,728,987
2015-2019	3,655,000	2,800,519	6,455,519
2020-2024	4,655,000	1,780,200	6,435,200
2025	<u>4,655,000</u>	<u>486,027</u>	<u>5,141,027</u>
Totals	<u>\$19,929,992</u>	<u>\$15,454,301</u>	<u>\$35,384,293</u>

9. PENSION PLANS

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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$520,464, \$497,220, and \$466,140 respectively; 50.2% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002.

STATE TEACHERS RETIREMENT SYSTEM

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,876,296, \$1,802,616, and \$1,725,624 respectively; 83.1% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002.

10. POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$603,495 for the fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more fiscal 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$216,736.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of 300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2004.

LITIGATION

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

12. JOINTLY GOVERNED ORGANIZATIONS

Hamilton/Clermont Cooperative Association (HCAA) - The Hamilton/Clermont Cooperative Association is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the twenty-four participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Hamilton Clermont Cooperative Association, Don Rabe, who serves as Treasurer, at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

Great Oaks Institute of Technology and Career Development - The Great Oaks Institute of Technology and Career Development is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirty-five members representing thirty-six affiliated school districts, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Great Oaks Institute of Technology and Career Development, John Wahle, who serves as Chief Financial Officer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District contracted with Nationwide Insurance for fleet and liability insurance and Inland Marine coverage and with Traveler’s Insurance for property insurance.

Coverages provided by Nationwide Insurance and Indiana Insurance are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$35,410,629
Inland Marine Coverage (\$1,000 deductible)	35,410,629
Boiler and Machinery (\$1,000 deductible)	No limit
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

14. STATE SCHOOL FUNDING DECISION

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

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

15. COMPLIANCE AND ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue Fund:	
Title VI B	\$6,155
Title I	32,214
Improving Teacher Quality	31,982

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

16. FUND BALANCE RESERVES FOR SET-ASIDES

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 year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2003, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	(\$386,730)	\$ 0	\$177,561
Current Year Set-aside Requirement	532,241	532,241	0
Qualified Disbursements	(535,966)	(532,241)	0
Current Year Offsets	0	0	0
Set-Aside Reserve Balance as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$177,561</u>
Restricted Cash as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$177,561</u>
Carried Forward to FY 2005	<u>(\$390,455)</u>	<u>\$ 0</u>	<u>\$177,561</u>

Offsets/expenditures for textbook activity during the year exceeded the required set-aside and the reserve balance. The surplus of \$390,455 may be carried forward to reduce the amount of the required set-aside in succeeding fiscal years.

Expenditures for capital activity during the year totaled \$943,725, which exceeded the required set-aside and the reserve balance. Although the District had qualifying disbursements during the year that reduced the Capital Acquisition set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004 consisted of the following individual fund receivables and payables.

Fund Type/Fund	Interfund		Transfers	
	Receivable	Payable	In	Out
General	\$29,420	\$0	\$1,874	\$0
Nonmajor Funds:				
Eisenhower Professional Development	0	0	0	1,874
Title VI Innovative Projects	0	29,420	1	1
Total Nonmajor Funds	0	29,420	1	0
Total All Funds	\$29,420	\$29,420	\$1,875	\$1,875

18. PRIOR PERIOD ADJUSTMENTS

The beginning net asset/fund balances of other governmental funds, enterprise and governmental activities has been adjusted for correction to the capital assets detail due to an appraisal and a change in threshold, correction to compensated absences due to exclusion of retirement assistance program expenses in prior year, and the reclassification of enterprise funds as follows:

	Other Governmental Funds	Enterprise	Governmental Activities
June 30, 2003 Fund Balance/ Net Assets, as previously stated	\$3,076,738	\$627,763	\$19,402,388
Fund Reclassification	298,337	(627,763)	627,763
Net Governmental Capital Assets	0	0	(2,385,559)
Net Compensated Absences	0	0	(1,438,733)
June 30, 2003 Fund Balance/ Net Assets, as restated	<u>\$3,375,075</u>	<u>\$0</u>	<u>\$16,205,859</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Southwest Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$10,194,156	\$10,021,510	\$10,021,571	\$61
Tuition and Fees	88,942	87,436	87,436	0
Investment Earnings	220,367	216,636	216,636	0
Intergovernmental	14,313,065	14,392,360	14,070,748	(321,612)
Other Revenues	76,921	75,619	75,619	0
Total Revenues	24,893,451	24,793,561	24,472,010	(321,551)
Expenditures:				
Current:				
Instruction:				
Regular	12,965,858	12,702,745	12,702,745	0
Special	2,201,996	2,157,311	2,157,311	0
Vocational	250,850	245,760	245,760	0
Other	259,227	253,967	253,967	0
Support Services:				
Pupil	975,140	955,352	955,352	0
Instructional Staff	1,142,480	1,119,296	1,119,296	0
General Administration	11,497	11,264	11,264	0
School Administration	2,445,591	2,395,963	2,395,963	0
Fiscal	577,312	565,597	565,597	0
Operations and Maintenance	3,349,616	3,281,643	3,281,643	0
Pupil Transportation	1,752,549	1,716,985	1,716,985	0
Central	27,564	27,005	27,005	0
Extracurricular Activities	510,289	499,934	499,934	0
Total Expenditures	26,469,969	25,932,822	25,932,822	0
Excess of Revenues Over (Under) Expenditures	(1,576,518)	(1,139,261)	(1,460,812)	(321,551)
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	4,644	4,565	4,565	0
Advances (Out)	(30,029)	0	(29,420)	(29,420)
Transfers In	1,906	1,874	1,874	0
Total Other Financing Sources (Uses)	(23,479)	6,439	(22,981)	(29,420)
Net Change in Fund Balance	(1,599,997)	(1,132,822)	(1,483,793)	(350,971)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	8,847,686	8,847,686	8,847,686	0
Fund Balance End of Year	\$7,247,689	\$7,714,864	\$7,363,893	(\$350,971)

See accompanying notes to the required supplementary information.

SOUTHWEST LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. BUDGETARY PROCESS

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District 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 final amended certificate of estimated resources issued during the fiscal year 2004.

The appropriation resolution is subject to amendment by the Board 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 year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

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

	<u>General</u>
GAAP Basis	(\$2,234,125)
Net Adjustment for Revenue Accruals	672,289
Net Adjustment for Expenditure Accruals	134,856
Encumbrances	<u>(56,813)</u>
Budget Basis	<u>(\$1,483,793)</u>

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster						
School Breakfast Program	05-PU	10.553	\$62,685	\$0	\$62,685	\$0
Food Commodity Distribution	nn-n1	10.550	0	60,667	0	60,667
National School Lunch Program	LL-P4	10.555	218,938	0	218,938	0
Total Child Nutrition Cluster			<u>281,623</u>	<u>60,667</u>	<u>281,623</u>	<u>60,667</u>
Total U.S. Department of Agriculture			<u>281,623</u>	<u>60,667</u>	<u>281,623</u>	<u>60,667</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI-B)	6B-SF	84.027	504,504	0	513,388	0
Total Special Education Cluster			<u>504,504</u>	<u>0</u>	<u>513,388</u>	<u>0</u>
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	283,263	0	243,217	0
School Renovation, IDEA and Technology	AT-S1	84.352	1,108	0	9,181	0
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	15,889	0	20,109	0
Improving Teacher Quality	TR-S1	84.367	380,234	0	368,758	0
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	1,087	0	827	0
Safe and Drug Free Schools	DR-S1	84.186	16,253	0	16,145	0
Total U.S. Department of Education			<u>1,202,338</u>	<u>0</u>	<u>1,171,625</u>	<u>0</u>
Totals			<u>\$1,483,961</u>	<u>\$60,667</u>	<u>\$1,453,248</u>	<u>\$60,667</u>

The accompanying notes to this schedule are an integral part of this schedule.

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule as the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

We have audited the basic financial statements of Southwest Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 7, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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.

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

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

Betty Montgomery
Auditor of State

March 7, 2005



**Auditor of State
Betty Montgomery**

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

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 7, 2005

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA# 84.367 Title II-A CFDA# 10.550 and 10.555 Child Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON 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 24, 2005**