



**Auditor of State
Betty Montgomery**

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Preble Shawnee Local School District, Preble County, Ohio, as of June 30, 2005, and the respective changes in financial position, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the School 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 States, 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.

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 28, 2006

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The discussion and analysis of Preble Shawnee Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

In total, net assets increased \$392,489, which represents a 6 percent increase from 2004.

General revenues accounted for \$11,505,994 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions, and interest, and capital grants and contributions accounted for \$2,558,251 or 18 percent of total revenues of \$14,064,245.

The School District had \$13,671,756 in expenses; only \$2,558,251 of these expenses were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$12,182,377 in revenues and \$11,608,806 in expenditures. The General Fund's balance increased \$264,316.

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 Preble Shawnee Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Preble Shawnee Local School District, the General Fund and the Bond Retirement Fund are the most significant funds.

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 School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 6. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds

All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general 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.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table 1		
Net Assets		
	2004	2005
Assets:		
Current and Other Assets	\$6,007,640	\$6,183,093
Capital Assets	9,850,181	9,458,481
<i>Total Assets</i>	15,857,821	15,641,574
 Liabilities:		
Long-Term Liabilities	4,600,618	4,237,325
Other Liabilities	4,828,958	4,583,515
<i>Total Liabilities</i>	9,429,576	8,820,840
 Net Assets:		
Invested in Capital Assets	5,714,299	5,638,481
Restricted	965,083	1,037,270
Unrestricted (Deficit)	(251,137)	144,983
<i>Total Net Assets</i>	\$6,428,245	\$6,820,734

Total assets of governmental activities decreased by \$216,247 and capital assets decreased by \$391,700. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, increased by \$396,120. The School District's educational program was significantly curtailed due to losses in enrollment and being on the 1998 state foundation guarantee. The District lost 17 certified personnel due to retirement, resignation, and reduction in force. None of these positions were filled.

Table 2 shows the changes in net assets for fiscal year 2005.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Changes in Net Assets		
	2004	2005
Revenues		
Program Revenues:		
Charges for Services	\$1,007,510	\$1,046,197
Operating Grants, Contributions and Interest	1,191,751	1,478,003
Capital Grants and Contributions	60,850	34,051
Total Program Revenues	2,260,111	2,558,251
General Revenues:		
Property Taxes	2,883,990	2,970,067
Income Tax	1,405,088	1,553,470
Grants and Entitlements	6,994,287	6,911,227
Other	47,550	71,230
Total General Revenues	11,330,915	11,505,994
Total Revenues	13,591,026	14,064,245
Program Expenses		
Instruction:		
Regular	6,264,814	5,966,308
Special	1,583,778	1,668,587
Vocational	552,243	436,322
Adult/Continuing	19,040	0
Support Services:		
Pupils and Instructional Staff	1,133,400	1,015,047
Board of Education, Administration, Fiscal and Business	1,551,878	1,512,869
Operation and Maintenance of Plant	1,385,307	1,245,842
Pupil Transportation	874,931	722,967
Central	255,410	200,075
Operation of Non-Instructional Services	517,784	556,719
Extracurricular Activities	396,291	143,015
Interest and Fiscal Charges	222,651	204,005
Total Expenses	14,757,527	13,671,756
Change in Net Assets	(1,166,501)	392,489
Net Assets Beginning of Year	7,594,746	6,428,245
Net Assets End of Year	\$6,428,245	\$6,820,734

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property taxes and income taxes made up 32 percent of revenues for governmental activities for the Preble Shawnee Local School District for fiscal year 2005. A significant reduction in spending occurred due to a decrease in the number of extracurricular activities offered at the District and due to the reduction in staff.

Instruction comprises 59 percent of district expenses. Support services expenses make up 34 percent of the expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows 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

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:				
Regular	6,264,814	(\$5,492,337)	5,966,308	(\$5,309,973)
Special	1,583,778	(851,648)	1,668,587	(625,890)
Vocational	552,243	(546,400)	436,322	(296,361)
Adult/Continuing	19,040	96,931	0	0
Support Services:				
Pupils and Instructional Staff	1,133,400	(1,097,567)	1,015,047	(985,332)
Board of Education, Administration				
Fiscal and Business	1,551,878	(1,520,375)	1,512,869	(1,466,915)
Operation and Maintenance of Plant	1,385,307	(1,383,750)	1,245,842	(1,244,006)
Pupil Transportation	874,931	(874,800)	722,967	(702,106)
Central	255,410	(228,029)	200,075	(178,935)
Operation of Non-Instructional Services	517,784	(79,750)	556,719	(45,436)
Extracurricular Activities	396,291	(297,040)	143,015	(54,546)
Interest and Fiscal Charges	222,651	(222,651)	204,005	(204,005)
Total Expenses	\$14,757,527	(\$12,497,416)	\$13,671,756	(\$11,113,505)

The dependence upon tax revenues is apparent. Over 77 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 81 percent. The community, as a whole, is the primary support for the Preble Shawnee Local School District.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,071,603 and expenditures of \$14,095,356. The net change in fund balance for the year in the General Fund and the Bond Retirement Fund was \$264,316 and (\$54,757) respectively. The General Fund experienced an increase from fiscal 2004 due to large personnel reductions.

General Fund Budgeting Highlights

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

During the course of the fiscal year 2005, the School District amended its General Fund budget once. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate was \$12,085,000. The original budgeted estimate was \$12,546,587. The difference between the original and final budget was \$461,587, mainly due to property taxes and intergovernmental revenues. The decreases in real estate were mainly due to a significant amount of delinquencies. The decreases in intergovernmental revenues were due to the decrease in the number of students, which led to a decrease in State foundation money.

During fiscal year 2005, the School District budgeted and received \$2,500,819 and \$7,409,356 in property taxes and intergovernmental revenues respectively.

Original budget basis expenditures were \$12,859,280 with final budget basis expenditures of \$11,753,494. The difference of \$1,105,786 was due primarily to a large reduction in personnel during fiscal year 2005.

Capital Assets

At the end of the fiscal year 2005, the School District had \$9,458,481 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2005 balances compared to 2004.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

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

	2004	2005
Land	\$247,991	\$247,991
Construction in Progress	380,882	0
Land Improvements	99,832	93,356
Buildings and Improvements	8,586,090	8,665,188
Furniture, Fixtures, and Equipment	325,436	275,299
Vehicles	209,950	176,647
Totals	\$9,850,181	\$9,458,481

Overall capital assets decreased \$391,700 from fiscal year 2004 to fiscal year 2005. The decrease was due to the depreciation expense for the year exceeding additions.

For more information on capital assets, see Note 10 of the Basic Financial Statements.

Debt Administration

At June 30, 2005, the School District had two school improvement debt issues outstanding. One issue was originally dated December 1, 1982 and will be retired on December 1, 2006. This project built a new high school for the School District. The second issue was originally dated March 3, 1999. This project provided for additions to both the School District's elementary schools. The energy conservation note was issued on November 29, 2004 and will be rolled over on November 1, 2005. This project provided energy improvements to the high school.

Table 5
Outstanding Debt at June 30,

	2004	2005
School Improvement Bond - 1982	\$525,000	\$350,000
School Improvement Bond - 1999	3,230,000	3,130,000
Energy Conservation Note - 2004	387,000	340,000
Totals	\$4,142,000	\$3,820,000

At June 30, 2005, the School District's overall legal debt limitation was \$9,624,233 with an unvoted debt margin of \$138,964, and an Energy Conservation debt margin of \$910,672 at June 30, 2005.

For more information on the School District's debt, see Note 15 of the Basic Financial Statements.

Current Financial Issues and Concerns

The District lost its fifth try at the passage of a levy by 26 votes in November 2005. The annual reappraisal of real property will become apparent with the tax bills being sent out in January 2006. Some of the increases in residential real property have been as high as 18 percent. This will not bode well for a future levy passage. This District continues to lose students in substantial numbers. It is anticipated another 12 to 15 instructors will lose their positions in the ensuing year. A fifteen percent increase in health/hospitalization insurance represents an increase of \$169,700.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jack L. Mann, Treasurer at Preble Shawnee Local School District, 124 Bloomfield Street, Camden, Ohio 45311 or email at psbo_jm@swoca.net

Preble Shawnee Local School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,217,290
Accounts Receivable	28,468
Intergovernmental Receivable	38,201
Inventory of Supplies and Materials	35,238
Prepaid Items	27,243
Income Tax Receivable	674,444
Property Taxes Receivable	3,158,178
Cash and Cash Equivalents	
With Fiscal Agents	4,031
Nondepreciable Capital Assets	247,991
Depreciable Capital Assets, Net	9,210,490
<i>Total Assets</i>	<u>15,641,574</u>
Liabilities:	
Accounts Payable	20,185
Accrued Wages and Benefits Payable	1,185,621
Intergovernmental Payable	332,783
Deferred Revenue	2,895,119
Matured Interest Payable	4,031
Accrued Interest Payable	20,380
Matured Compensated Absences Payable	110,396
Special Termination Benefit Payable	15,000
Long Term Liabilities:	
Due Within One Year	412,082
Due In More Than One Year	3,825,243
<i>Total Liabilities</i>	<u>8,820,840</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,638,481
Restricted for:	
Capital Outlay	35,000
Debt Service	600,003
Other Purposes	307,442
Set Asides	94,825
Unrestricted	144,983
<i>Total Net Assets</i>	<u>\$6,820,734</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$5,966,308	\$427,265	\$215,880	\$13,190	(\$5,309,973)
Special	1,668,587	166,553	876,144	0	(625,890)
Vocational	436,322	5,812	134,149	0	(296,361)
Support Services:					
Pupils	610,921	0	14,190	0	(596,731)
Instructional Staff	404,126	0	15,525	0	(388,601)
Board of Education	49,152	0	0	0	(49,152)
Administration	1,060,355	42,972	2,982	0	(1,014,401)
Fiscal	398,423	0	0	0	(398,423)
Business	4,939	0	0	0	(4,939)
Operation and Maintenance of Plant	1,245,842	0	1,836	0	(1,244,006)
Pupil Transportation	722,967	0	0	20,861	(702,106)
Central	200,075	0	21,140	0	(178,935)
Operation of Non-Instructional Services	556,719	315,751	195,532	0	(45,436)
Extracurricular Activities	143,015	87,844	625	0	(54,546)
Interest and Fiscal Charges	204,005	0	0	0	(204,005)
<i>Total Governmental Activities</i>	<u>\$13,671,756</u>	<u>\$1,046,197</u>	<u>\$1,478,003</u>	<u>\$34,051</u>	<u>(11,113,505)</u>

General Revenues:

Property Taxes Levied For:

General Purposes	2,533,596
Capital outlay	58,070
Debt Service	378,401
Income Tax	1,553,470
Grants and Entitlements not Restricted to	
Specific Programs	6,911,227
Investment Earnings	55,180
Miscellaneous	16,050
<i>Total General Revenues</i>	<u>11,505,994</u>

Change in Net Assets 392,489

Net Assets Beginning of Year 6,428,245

Net Assets End of Year \$6,820,734

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District

Balance Sheet
Governmental Funds
June 30, 2005

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,073,241	\$581,818	\$467,406	\$2,122,465
Receivables:				
Property Taxes	2,710,114	390,537	57,527	3,158,178
Income Tax	674,444	0	0	674,444
Accounts	1,452	0	27,016	28,468
Intergovernmental	2,480	0	35,721	38,201
Interfund	27,438	0	0	27,438
Inventory of Supplies and Materials	13,573	0	21,665	35,238
Prepaid Items	27,243	0	0	27,243
Cash and Cash Equivalents				
With Fiscal Agents	0	4,031	0	4,031
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	94,825	0	0	94,825
Total Assets	\$4,624,810	\$976,386	\$609,335	\$6,210,531
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$18,452	\$0	\$1,733	\$20,185
Accrued Wages and Benefits Payable	1,086,199	0	99,422	1,185,621
Interfund Payable	0	0	27,438	27,438
Intergovernmental Payable	309,557	0	23,226	332,783
Matured Interest Payable	0	4,031	0	4,031
Matured Compensated Absences Payable	110,396	0	0	110,396
Deferred Revenue	2,709,832	374,838	82,127	3,166,797
Special Termination Benefit Payable	15,000	0	0	15,000
Total Liabilities	4,249,436	378,869	233,946	4,862,251
Fund Balances:				
Reserved for Encumbrances	200,708	0	54,992	255,700
Reserved for Property Taxes	105,007	15,699	2,375	123,081
Reserved for Textbooks and Instructional Materials	29,995	0	0	29,995
Reserved for Budget Stabilization	64,830	0	0	64,830
Unreserved, Undesignated (Deficit), Reported in:				
General Fund	(25,166)	0	0	(25,166)
Special Revenue Funds	0	0	283,022	283,022
Debt Service Fund	0	581,818	0	581,818
Capital Projects Funds	0	0	35,000	35,000
Total Fund Balances	375,374	597,517	375,389	1,348,280
Total Liabilities and Fund Balances	\$4,624,810	\$976,386	\$609,335	\$6,210,531

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances		\$1,348,280
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
	Land	247,991
	Land Improvements	417,414
	Buildings and Improvements	14,799,841
	Furniture, Fixtures, and Equipment	1,224,022
	Vehicles	867,172
	Accumulated Depreciation	<u>(8,097,959)</u>
	Total Capital Assets	9,458,481
 Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
	Property Taxes Receivable	139,978
	Income Tax Receivable	104,725
	Accounts Receivable	<u>26,975</u>
		271,678
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
	General Obligation Bonds Payable	(3,480,000)
	Notes Payable	(340,000)
	Accrued Interest on Bonds	(15,351)
	Accrued Interest on Notes	(5,029)
	Compensated Absences Payable	<u>(417,325)</u>
	Total Liabilities	<u>(4,257,705)</u>
		<u>\$6,820,734</u>
	<i>Net assets of Governmental Activities</i>	

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$2,534,507	\$378,523	\$57,974	\$2,971,004
Income Tax	1,538,570	0	0	1,538,570
Tuition and Fees	527,546	0	63,777	591,323
Interest	55,180	0	485	55,665
Intergovernmental	7,409,356	49,398	908,559	8,367,313
Extracurricular Activities	44,970	0	85,846	130,816
Gifts and Donations	58,164	0	19,443	77,607
Rent	7,504	0	0	7,504
Charges for Services	0	0	315,751	315,751
Miscellaneous	6,580	0	9,470	16,050
<i>Total Revenues</i>	<u>12,182,377</u>	<u>427,921</u>	<u>1,461,305</u>	<u>14,071,603</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,471,866	0	217,194	5,689,060
Special	1,051,896	0	601,645	1,653,541
Vocational	407,854	0	7,692	415,546
Support Services:				
Pupils	556,377	0	60,610	616,987
Instructional Staff	369,034	0	17,319	386,353
Board of Education	49,152	0	0	49,152
Administration	1,029,068	0	32,826	1,061,894
Fiscal	410,913	11,154	1,483	423,550
Business	4,792	0	0	4,792
Operation and Maintenance of Plant	1,271,717	0	7,325	1,279,042
Pupil Transportation	719,185	0	0	719,185
Central	159,615	0	51,650	211,265
Operation of Non-Instructional Services	0	0	536,390	536,390
Extracurricular Activities	94,975	0	42,538	137,513
Capital Outlay	12,362	0	32,831	45,193
Debt Service:				
Principal Retirement	0	662,000	0	662,000
Interest and Fiscal Charges	0	203,893	0	203,893
<i>Total Expenditures</i>	<u>11,608,806</u>	<u>877,047</u>	<u>1,609,503</u>	<u>14,095,356</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>573,571</u>	<u>(449,126)</u>	<u>(148,198)</u>	<u>(23,753)</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of Notes	0	340,000	0	340,000
Transfers In	0	54,369	254,886	309,255
Transfers Out	(309,255)	0	0	(309,255)
<i>Total Other Financing Sources (Uses)</i>	<u>(309,255)</u>	<u>394,369</u>	<u>254,886</u>	<u>340,000</u>
<i>Net Change in Fund Balance</i>	264,316	(54,757)	106,688	316,247
<i>Fund Balances at Beginning of Year</i>	111,058	652,274	268,701	1,032,033
<i>Fund Balances at End of Year</i>	<u>\$375,374</u>	<u>\$597,517</u>	<u>\$375,389</u>	<u>\$1,348,280</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$316,247

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	45,351	
Depreciation Expense	(437,051)	
Excess of Capital Outlay Over Depreciation Expense		(391,700)

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

General Obligation Bonds Payable	275,000	
Notes Payable	387,000	
		662,000

Note Proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(340,000)

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts:

Property Taxes	(937)	
Income Taxes	14,900	
Tuition and Fees	803	
Intergovernmental Grants	(22,124)	
		(7,358)

Some items 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. These activities consist of:

Increase in Accrued Interest	(112)	
Decrease in Compensated Absences	41,293	
Decrease in Intergovernmental Payable	112,119	
		153,300

Change in Net Assets of Governmental Activities \$392,489

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	
Revenues:				
Property Taxes	\$2,626,400	\$2,500,819	\$2,500,819	\$0
Income Tax	1,372,900	1,480,014	1,480,014	0
Tuition and Fees	501,864	526,037	526,037	0
Interest	37,138	55,180	55,180	0
Intergovernmental	7,996,625	7,409,356	7,409,356	0
Extracurricular Activities	2,639	44,970	44,970	0
Gifts and Donations	3,413	58,164	58,164	0
Rent	5,540	7,504	7,504	0
Miscellaneous	68	2,956	2,956	0
<i>Total Revenues</i>	<u>12,546,587</u>	<u>12,085,000</u>	<u>12,085,000</u>	<u>0</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,141,374	5,472,650	5,472,650	0
Special	1,372,044	1,052,211	1,052,211	0
Vocational	449,599	459,178	459,178	0
Support Services:				
Pupils	704,773	523,699	523,699	0
Instructional Staff	356,635	378,061	378,061	0
Board of Education	77,332	48,287	48,287	0
Administration	970,822	1,042,375	1,042,375	0
Fiscal	461,964	364,980	364,980	0
Business	35,119	13,132	13,132	0
Operation and Maintenance of Plant	1,975,384	1,371,531	1,371,531	0
Pupil Transportation	942,744	711,333	711,333	0
Central	232,164	164,922	164,922	0
Operation of Non-Instructional Services	5,761	7,000	7,000	0
Extracurricular Activities	88,662	100,200	100,200	0
Capital Outlay	44,903	43,935	43,935	0
<i>Total Expenditures</i>	<u>12,859,280</u>	<u>11,753,494</u>	<u>11,753,494</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(312,693)</u>	<u>331,506</u>	<u>331,506</u>	<u>0</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	900	1,456	1,456	0
Advances Out	0	(27,438)	(27,438)	0
Transfers Out	(63,619)	(309,255)	(309,255)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(62,719)</u>	<u>(335,237)</u>	<u>(335,237)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(375,412)	(3,731)	(3,731)	0
<i>Fund Balance at Beginning of Year</i>	837,690	837,690	837,690	0
<i>Prior Year Encumbrances Appropriated</i>	129,167	129,167	129,167	0
<i>Fund Balance at End of Year</i>	<u>\$591,445</u>	<u>\$963,126</u>	<u>\$963,126</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

	<u>Agency</u>
Asset:	
Equity in Pooled Cash and Cash Equivalents	<u>\$56,105</u>
Liabilities:	
Undistributed Monies	6,768
Due to Students	<u>49,337</u>
<i>Total Liabilities</i>	<u>\$56,105</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 89 square miles. It is located in Butler, Montgomery, and Preble Counties, including all of Gasper, German, Gratis, Israel, Lanier, Somers, and Wayne Townships.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan (OSP), and the Preble County Consortium (the "Consortium"), respectively. These organizations are presented in Notes 16, 17 and 18 to the basic financial statements.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

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

Bond Retirement Fund - The Bond Retirement Fund accounts for property tax revenues and State grants restricted to the payment of general obligation bonded debt.

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

Fiduciary Fund Types:

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. The School District's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The unreimbursed medical claims agency fund accounts for the pretax dollars that employees have taken out of their pay check to be used as needed for medical bills. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits.

During fiscal year 2005, the School District's investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$55,180, which includes \$21,825 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District to create a reserve for budget stabilization and a reserve for the purchase of textbooks and instructional materials.

I. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

J. Interfund Balances

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation 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 it is probable that the benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government-wide statement of net assets reports \$1,037,270 of restricted net assets, of which \$280,596 is restricted by enabling legislation.

N. Fund Balance Reserves and Designation

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2005.

O. Interfund Transactions

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

P. Estimates

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

Q. Special Termination Benefit Payable

The School District offers a bonus to certified employees who retire in the first year that they become eligible. These employees must give written notice to the Superintendent by March 15 of the year he/she first becomes eligible for "full retirement" and must have at least 30 years of service. There were three employees during fiscal year 2005 that were eligible and took the bonus. The amount payable at June 30, 2005 was \$15,000.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year in all funds.

The appropriation resolution is subject to amendment by the board throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year including all supplemental appropriations. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School District has implemented *GASB Statement No. 40, "Deposit and Investment Risk Disclosures"*, *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"* and *GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers"*.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the School District's financial statements for fiscal year 2005.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2, addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing, multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the School District's financial statements for fiscal year 2005.

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY

Ohio Revised Code Section 5705.41 (D) requires that a certificate of the fiscal officer stating that the obligation has been lawfully appropriated and is in the treasury be attached when making any contract or giving any order involving the expenditure of money.

At June 30, 2005, the Vocation Education, Title VI, and Title II-A funds had deficit fund balances of \$696, \$4,131 and \$472, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$264,316
Net Adjustment for Revenue Accruals	(95,921)
Net Adjustment for Expenditure Accruals	60,252
Advances	(27,438)
Adjustment for Encumbrances	<u>(204,940)</u>
Budget Basis	<u><u>(\$3,731)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$532,426 of the School District's bank balance of \$929,046 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

B. Investments

As of June 30, 2005 the School District's only investment was in STAROhio, which has an average maturity of 33 days. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Butler, Montgomery, and Preble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$105,007 in the General Fund, \$15,699 in the Bond Retirement Fund, and \$2,375 in the other governmental funds. The amount available as an advance at June 30, 2004, was \$71,319 in the General Fund, \$10,662 in the Bond Retirement Fund, and \$1,551 in the other governmental funds.

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 is deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second - Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$124,579,620	92.01%	\$126,943,780	91.35%
Public Utility	6,987,060	5.16%	7,142,650	5.14%
Tangible Personal Property	3,826,484	2.83%	4,877,076	3.51%
Total	\$135,393,164	100.00%	\$138,963,506	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$26.07		\$26.07	

NOTE 8 - INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes, income tax, accounts, intergovernmental grants and interfund. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Transportation Reimbursements	\$2,480
Ohio Reads Grant	9,450
Vocational Education Enhancements Grant	771
Title I Grant	25,000
Preschool Handicap Grant	500
Total Intergovernmental Receivables	\$38,201

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2005</u>
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$247,991	\$0	\$0	\$247,991
Construction in Progress	380,882	6,679	(387,561)	0
Total Capital Assets, not Being Depreciated	628,873	6,679	(387,561)	247,991
Capital Assets, Being Depreciated:				
Land Improvements	417,414	0	0	417,414
Buildings and Improvements	14,412,280	387,561	0	14,799,841
Furniture, Fixtures, and Equipment	1,211,192	38,672	(25,842)	1,224,022
Vehicles	867,172	0	0	867,172
Total Capital Assets, Being Depreciated	16,908,058	426,233	(25,842)	17,308,449
Less Accumulated Depreciation:				
Land Improvements	(317,582)	(6,476)	0	(324,058)
Buildings and Improvements	(5,826,190)	(308,463)	0	(6,134,653)
Furniture, Fixtures, and Equipment	(885,756)	(88,809)	25,842	(948,723)
Vehicles	(657,222)	(33,303)	0	(690,525)
Total Accumulated Depreciation	(7,686,750)	(437,051)	25,842	(8,097,959)
Capital Assets, Being Depreciated, Net	9,221,308	(10,818)	0	9,210,490
Governmental Activities Capital Assets, Net	\$9,850,181	(\$4,139)	(\$387,561)	\$9,458,481

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$278,881
Special	18,788
Vocational	18,885
Support Services:	
Pupils	763
Instructional Staff	20,938
Administration	5,390
Business	147
Operation and Maintenance of Plant	19,564
Pupil Transportation	35,981
Central	1,033
Operation of Non-Instructional Services	27,972
Extracurricular Activities	8,709
Total Depreciation Expense	<u><u>\$437,051</u></u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17). The School District contracts for property, fleet, and liability insurance with OSP.

Insurance coverage provided includes the following:

Building and Contents – Replacement Cost (\$1,000 deductible)	\$28,992,440
Inland Marine Coverage (\$1,000 deductible)	500,000
Boiler and Machinery (\$1,000 deductible)	14,214,200
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
Educational General Liability	
Bodily Injury and Property Damage	
Per Occurrence	1,000,000

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - RISK MANAGEMENT (continued)

Sexual Abuse Injury	
Per Occurrence	\$1,000,000
Personal and Advertising Injury	
Per Occurrence	1,000,000
Fire Damage Limit	500,000
Medical Expense	
Per Person	10,000
Per Occurrence	10,000
General Aggregate Limit	3,000,000
Products	
Completed Operations Limit	1,000,000
Employers' Liability and Stop Gap Endorsement	
Bodily Injury By Accident	
Per Occurrence	1,000,000
Bodily Injury By Disease	
Per Employee	1,000,000
Aggregate	1,000,000
Employee Benefits Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability Coverage From	
Errors and Omissions Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000
Employment Practices Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	1,000,000

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

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - RISK MANAGEMENT (continued)

A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Intergrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

For fiscal year 2005, the School District participated in the Preble County Consortium (the “Consortium”), a shared risk pool consisting of five local school districts and an educational service center (See Note 18). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003, were \$176,917, \$175,780, and \$134,556, respectively; 49.81 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$729,971, \$818,850, and \$734,791, respectively; 81.94 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,005 made by the School District and \$4,659 made by the plan members.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$56,152 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, Preble Shawnee paid \$88,819 to fund health care benefits, including the surcharge.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

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, 2005, were \$178,221,113 and the target level was \$367.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. There is no ceiling on how much vacation employees may accumulate. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to various maximum levels depending on the length of the employee's contract. Upon retirement, payment is made for 30 percent of accrued, but unused sick leave credit.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Guardian Life.

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/2005</u>	<u>Due in One Year</u>
Governmental Activities					
Notes Payable:					
Energy Conservation 2004 1.40%	\$387,000	\$340,000	\$387,000	\$340,000	\$0
General Obligation Bonds:					
School Improvement 1982 10.75%	525,000	0	175,000	350,000	175,000
School Improvement 1999 5.00%	3,230,000	0	100,000	3,130,000	105,000
Total General Obligation Bonds	3,755,000	0	275,000	3,480,000	280,000
Compensated Absences	458,618	125,591	166,884	417,325	132,082
Total Governmental Activities Long-Term Liabilities	<u>\$4,600,618</u>	<u>\$465,591</u>	<u>\$828,884</u>	<u>\$4,237,325</u>	<u>\$412,082</u>

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

Notes Payable

On November 29, 2004, the School District issued \$340,000 in unvoted general obligation debt for the purpose of providing energy conservation measures for the School District, under authority of the Ohio Revised Code Sections 113.06(G) and 3313.372. The notes were issued at a 2.5 percent interest rate and will reach maturity on November 1, 2005. The debt will be retired from the anticipated savings over ten years and will be paid from the Bond Retirement Fund.

School Improvement General Obligation Bonds

On December 1, 1982, Preble Shawnee Local School District issued \$4,050,000 in voted general obligation bonds for the purpose of an addition and improvements to the schools in the School District. The bonds were issued for a twenty-four year period with final maturity at December 1, 2006. The debt will be retired from the Bond Retirement Fund.

On March 3, 1999, Preble Shawnee Local School District issued \$3,692,900 in voted general obligation bonds for the purpose of additions and improvements to the school buildings in the School District. The bonds were issued for a twenty-two year period with final maturity at December 1, 2021. The debt will be retired from the Bond Retirement Fund.

The compensated absences liability will be paid from the General, Food Services, EMIS, Title I, and Title II-A funds.

The School District's overall legal debt margin was \$9,624,233 with an unvoted debt margin of \$138,964, and an Energy Conservation debt margin of \$910,672 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$280,000	\$175,779	\$455,779
2007	290,000	152,509	442,509
2008	120,000	138,225	258,225
2009	130,000	132,910	262,910
2010	135,000	127,145	262,145
2011-2015	830,000	527,537	1,357,537
2016-2020	1,135,000	288,625	1,423,625
2021-2022	560,000	28,500	588,500
Total	\$3,480,000	\$1,571,230	\$5,051,230

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Ohio Computer Association

The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$32,377 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2005, the School District paid \$7,581 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

C. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the School District paid \$9,604 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 17 - INSURANCE PURCHASING POOLS

A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 - SHARED RISK POOL

Preble County Consortium

The Preble County Consortium (the "Consortium"), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 19 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based upon legislative changes, this is the only money still required to be set-aside for this purpose.

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

	Budget Stabilization	Textbooks/ Instructional Materials	Capital Improvements
Set-aside Reserve Balance as of			
June 30, 2004	\$64,830	(\$24,710)	\$0
Current Year Set-aside Requirement	0	232,648	232,648
Qualifying Disbursements	0	(177,943)	(86,665)
Current Year Offsets	0	0	(430,636)
Totals	<u>64,830</u>	<u>29,995</u>	<u>(284,653)</u>
Set-aside Balance Carried Forward to			
Future Fiscal Years	<u>\$64,830</u>	<u>\$29,995</u>	<u>\$0</u>
Set-aside Reserve Balance as of			
June 30, 2005	<u>\$64,830</u>	<u>\$29,995</u>	<u>\$0</u>

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 19 - SET-ASIDE CALCULATIONS (continued)

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital acquisitions amounts below zero. This extra amount of offsets may not be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$94,825.

NOTE 20 – INTERFUND ACTIVITY

A. Interfund Transfers

The General Fund had transfers out to the Debt Service Fund and to other governmental funds of \$54,369 and \$254,886 during fiscal year 2005. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds and to retire debt.

B. Advances To/From Other Funds

The General Fund had an interfund receivable and other governmental funds had interfund payables in the amount of \$27,438. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the General Fund for the initial advance. All are expected to be paid within one year.

NOTE 21 - CONTINGENCIES

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

NOTE 22- SUBSEQUENT EVENT

On October 29, 2005, the School District refinanced the \$340,000 Energy Conservation note in the amount of \$275,000 for the purpose of energy conservation improvements to the high school. The interest rate of the note is 3.10% and it matures on October 24, 2006.

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PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2005

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>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$ 37,435		\$ 37,435
National School Breakfast Program	05PU-2005 05PU-2004	10.553	\$ 6,062 1,533	-	\$ 6,062 1,533	-
Total National School Breakfast Program			7,595	-	7,595	-
National School Lunch Program	LLP4-2005 LLP4-2004	10.555	105,309 32,429	-	105,309 32,429	-
Total National School Lunch Program			137,738	-	137,738	-
Total Nutrition Cluster			145,333	37,435	145,333	37,435
<i>Total Passed Through Ohio Department of Education</i>			145,333	37,435	145,333	37,435
Total U.S. Department of Agriculture			145,333	37,435	145,333	37,435
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
Total Grants to Local Educational Agencies (ESEA Title I)	C1S1-2005 C1S1-2004	84.010	166,667	-	201,666 26,662	-
			166,667	-	228,328	-
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)	6BSF-2005	84.027	310,421	-	361,199	-
Special Education: Preschool Grant	PGS1-2005	84.173	5,192	-	5,192	-
Total Special Education Cluster			315,613	-	366,391	-
Safe and Drug Free Schools and Communities	DRS1-2005 DRS1-2004	84.186	7,094	-	30,788 8,382	-
Total Safe and Drug Free Schools and Communities			7,094	-	39,170	-
Innovative Education Program Strategy	C2S1-2005	84.298	7,096	-	21,374	-
Title II-D: Technology Literacy Challenge Fund	TJS1-2005 TJS1-2004	84.318	8,679 (4,248)	-	6,913 5,664	-
Total Title II-D: Technology Literacy Challenge Fund			4,431	-	12,577	-
Advanced Placement	AVTF-2005	84.330	156	-	156	-
Title II-A: Improving Teacher Quality	TRS1-2005 TRS1-2004	84.367	72,891	-	96,773 21,415	-
Total Title II-A: Improving Teacher Quality			72,891	-	118,188	-
<i>Total Passed Through Ohio Department of Education</i>			573,948	-	786,184	-
Total U.S. Department of Education			573,948	-	786,184	-
Total			\$ 719,281	\$ 37,435	\$ 931,517	\$ 37,435

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

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 28, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School District's management dated March 28, 2006, we reported another matter involving internal control over financial reporting which we did not deem a reportable condition.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated March 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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 28, 2006



Auditor of State Betty Montgomery

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

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

To the Board of Education:

Compliance

We have audited the compliance of Preble Shawnee Local School District, Preble County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Preble Shawnee Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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 28, 2006

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Reportable Condition/Non-Compliance

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

**FINDING NUMBER 2005-001
(Continued)**

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

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

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the School District. When prior certification is not possible, “then and now” certification should be used.

We recommend the School District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the School District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code, Section 5705.41(D), failure to properly certify funds	No	Re-issued as Finding 2005-001



**Auditor of State
Betty Montgomery**

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PREBLE SHAWNEE LOCAL SCHOOL DISTRICT

PREBLE 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
APRIL 13, 2006**