

Southern Hills Vocational School District

Brown County

Regular Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Southern Hills Joint Vocational School District
9193 Hamer Rd.
Georgetown, OH 45121

We have reviewed the Independent Auditor's Report of the Southern Hills Joint Vocational School District, Brown County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 13, 2005

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Southern Hills Joint Vocational School District
9193 Hamer Road
Georgetown, Ohio 45121

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2005, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Southern Hills Vocational School District
Independent Auditor's Report
Page 2

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

January 27, 2005

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Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As management of the Southern Hills Joint Vocational School District, we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here, in conjunction with additional information we have provided in the notes to the financial statements and financial statements to enhance their understanding of the School District's financial performance.

This discussion and analysis of Southern Hills Joint Vocational School District's financial performance is intended to serve as an introduction to the School District's basic financial statements, and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The Southern Hills Joint Vocational School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

Financial Highlights

- ❑ In total, net assets increased \$287,348.
- ❑ General revenues accounted for \$3,965,270 in revenue or 67 percent of all total revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$1,957,487 or 33 percent of total revenues of \$5,922,757.
- ❑ The School District had \$5,635,409 in expenses related to governmental activities; only \$1,957,487 of these expenses were offset by program specific charges for services and sales, operating grants and contributions. General revenues (primarily grants, entitlements and property taxes) of \$3,965,270 were used to provide for these programs along with cash balances from the prior year.

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Using the Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Southern Hills Joint Vocational School District as a financial whole, an entire operating entity.

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 activities, 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 major funds with all other non-major funds presented in total in one column. The major funds for the Southern Hills Joint Vocational School District are the General Fund, the Permanent Improvement Capital Projects Fund, and the Vocational Education Equipment Capital Projects Fund.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2004?"

The *Statement of Net Assets* and the *Statement of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is 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. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. 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 major funds.

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

Fiduciary Funds – The School District's only fiduciary funds are a private purpose trust fund and an agency fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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, on the following page, provides a summary of the School District's net assets for 2004 and 2003:

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and		
Other Assets	\$7,963,136	\$7,809,771
Capital Assets	3,683,672	3,729,348
Total Assets	11,646,808	11,539,119
Liabilities		
Long-Term Liabilities	204,715	139,895
Other Liabilities	1,992,775	2,237,254
Total Liabilities	2,197,490	2,377,149
Net Assets		
Invested in Capital Assets	3,683,672	3,729,348
Restricted	2,938,472	2,753,051
Unrestricted	2,827,174	2,679,571
Total Net Assets	\$9,449,318	\$9,161,970

Total assets increased by \$107,689. Total liabilities decreased by \$179,659. Total net assets increased by \$287,348. Invested in Capital Assets for governmental activities decreased due to current year deletions and depreciation exceeding current year additions by \$45,676. Restricted Net Assets for governmental activities increased by \$185,421. This was primarily due to an increase of \$76,240 in the cash balance in the Permanent Improvement Capital Projects Fund, which occurred due to the receipt of tax revenues with no significant increase in expenditures from the prior year. In future years, this cash balance will be used to fund the School District's facility project. The remaining increase in Restricted Net Assets for governmental activities of \$109,181 was due to an increase in State monies being received based upon an increase in the number of programs offered by the School District.

Table 2, on the following page, shows the changes in net assets for fiscal years 2004 and 2003.

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program Revenues:		
Charges for Services and Sales	\$436,610	\$367,448
Operating Grants and Contributions	1,520,877	1,445,336
Capital Grants and Contributions	0	3,443
Total Program Revenues	1,957,487	1,816,227
General Revenues:		
Property Taxes	1,714,066	1,734,496
Grants and Entitlements not Restricted to Specific Programs	2,168,298	2,293,052
Investment Earnings	65,418	166,663
Rent	5,649	0
Miscellaneous	11,839	14,936
Total General Revenues	3,965,270	4,209,147
Transfers	0	160,000
Total Revenues and Transfers	5,922,757	6,185,374
 Program Expenses		
Instruction:		
Regular	140,266	143,681
Vocational	3,090,159	3,030,982
Adult/Continuing	202,395	280,506
Support Services:		
Pupils	330,181	310,476
Instructional Staff	114,036	122,202
Board of Education	36,002	30,652
Administration	505,658	374,406
Fiscal	311,520	295,554
Business	38,876	16,112
Operation and Maintenance of Plant	598,992	492,466
Pupil Transportation	31,712	41,998
Central	51,418	49,797
Operation of Non-Instructional Services:		
Other	0	3,080
Food Service Operations	176,821	187,682
Extracurricular Activities	7,373	17,761
Transfers	0	160,000
Total Expenses and Transfers	5,635,409	5,557,355
 Increase in Net Assets	 \$287,348	 \$628,019

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Program revenues increased by \$141,260 due mainly to an increase in restricted grants received from other governments of \$75,541 and an increase in charges for services and sales of \$69,162, resulting from timing differences in the receipt of monies. Grants and entitlements not restricted for specific purposes decreased by \$124,754 due to reductions in unrestricted school foundation monies received from the Ohio Department of Education and investment earnings decreased by \$101,245 due to a significant decrease in the interest rates the School District was receiving on its certificates of deposits and investments.

Governmental Activities

Grants and Entitlements made up 54 percent of revenues for governmental activities of the Southern Hills Joint Vocational School District for fiscal year 2004. It is very common for these monies to make up the majority of revenues in low property wealth districts that rely on State revenue to support its daily operations. Southern Hills ranked 48th out of the 49 Ohio Joint Vocational School Districts in property valuation per pupil.

Instruction comprises 61 percent of governmental program expenses. Support services expenses make up 36 percent of governmental expenses. Support services provide a key role in meeting the needs of our students, tutoring to transportation, on-line testing to guidance and maintenance, and assisting our staff in providing an educational process that ranks us near the top in providing education to career tech students.

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

(Table 3)
 Governmental Activities

	Total Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
Instruction	\$3,432,820	\$3,091,015	(\$1,920,692)	(\$1,964,242)
Support Services	2,018,395	1,733,663	(1,682,443)	(1,500,659)
Operation of Non-Instructional Services				
Other	0	3,080	0	(3,080)
Food Service Operations	176,821	187,682	(68,069)	(74,838)
Extracurricular Activities	7,373	17,761	(6,718)	(17,761)
Total Expenses	\$5,635,409	\$5,033,201	(\$3,677,922)	(\$3,560,580)

*Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

The School District's Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$6,161,856 and expenditures and other financing uses of \$5,678,766. The net change in fund balance for the year was most significant in the General Fund, an increase of \$293,372. This is due mainly to the School District's consistent spending netted against slight increases in revenues. In 2004 and 2003, the School District's revenues and other financing sources have exceeded expenditures and other financing uses in the General Fund by 6 percent and 5 percent, respectively.

General Fund - Budget Highlights

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

During the course of fiscal 2004 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 19, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

The School District's ending unobligated cash balance in the General Fund was \$285,361 above the final budgeted amount.

Debt

At June 30, 2004, the School District had no outstanding debt.

*Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Capital Assets

At the end of fiscal year 2004, the School District had \$3,683,672 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$68,701	\$68,701
Land Improvements	28,450	28,973
Buildings and Improvements	2,165,890	2,250,324
Furniture and Equipment	1,395,181	1,355,428
Vehicles	25,450	25,922
Totals	\$3,683,672	\$3,729,348

Net Capital Assets decreased from the prior year. This was primarily due to depreciation.

For more information on Capital Assets, refer to the notes to the basic financial statements (Note 8).

Current Issues

The Southern Hills Joint Vocational School District is financially stable and has been over the past decade. The School District is very proud of the fact that only one additional operating levy has been needed since the School District began operations in 1975. The School District is currently ranked second poorest among joint vocational school districts in the State. Although the School District is considered low wealth, it provides a quality education for its students, with five vocational programs receiving national accreditation. The School District currently has twelve vocational programs housed at the Career Center and nine satellite programs at the local schools, with a total student population of over one thousand students served by the School District.

Southern Hills Joint Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The Southern Hills Joint Vocational School District depends dramatically on the State of Ohio School funding system with around sixty percent of the School District's operating budget supplied by the State. This factor concerns the School District, since the Ohio Supreme Court, in March, 1997, declared the State of Ohio to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". However, the Court said that the system could be constitutional if the Ohio Legislature would correct some portions of the funding system. As this document goes to print, the State has not complied with the Court order. This uncertainty causes difficulties in planning and developing a sound five-year forecast.

The current building was constructed in 1975 and is in need of some major repairs and updates. Attempts have been made to secure State and federal grants, however, at this time no assistance has been received. Currently the School District is listed second on the Ohio Schools Facilities Commission's list for State assistance to Ohio Joint Vocational School Districts based on property valuations per pupil. The Ohio Schools Facilities Commission has completed the analysis of the school building and determined the facility qualifies for seven million seven hundred thousand dollars (\$7,700,000) in State assistance in the renovation of the existing building. The School District must provide the additional two million seven hundred thousand dollars (\$2,700,000) needed to complete the project and annually contribute the required maintenance allocation determined by the Ohio Schools Facilities Commission to be one hundred and fifty seven thousand five hundred dollars (\$157,500) for a period of twenty three (23) years. The School District is currently on the February ballot for a one mill levy to generate the School District's portion of the project.

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 any questions about this report or need additional information, contact Michael Boyd, Treasurer at Southern Hills Joint Vocational School District, 9193 Hamer Road, Georgetown, Ohio 45121 or e-mail at mike_shc@scoca-k12.org.

Southern Hills Joint Vocational School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,954,002
Materials and Supplies Inventory	7,229
Accrued Interest Receivable	70,552
Internal Balances	
Intergovernmental Receivable	59,280
Prepaid Items	17,678
Property Taxes Receivable	1,854,395
Capital Assets:	
Land	68,701
Depreciable Capital Assets, Net	<u>3,614,971</u>
<i>Total Assets</i>	<u><u>\$ 11,646,808</u></u>
Liabilities	
Accounts Payable	15,436
Accrued Wages and Benefits	409,326
Intergovernmental Payable	74,298
Deferred Revenue	1,493,715
Long-Term Liabilities:	
Due Within One Year	19,636
Due in More Than One Year	<u>185,079</u>
<i>Total Liabilities</i>	<u>2,197,490</u>
Net Assets	
Invested in Capital Assets	3,683,672
Restricted for Capital Outlay	1,737,212
Restricted for Other Purposes	1,201,260
Unrestricted	<u>2,827,174</u>
<i>Total Net Assets</i>	<u><u>\$9,449,318</u></u>

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net(Expense)Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$140,266	\$25,784	\$5,197	(\$109,285)
Vocational	3,090,159	82,316	1,203,105	(1,804,738)
Adult/Continuing	202,395	135,948	59,778	(6,669)
Support Services:				
Pupils	330,181	15,500	143,455	(171,226)
Instructional Staff	114,036	0	21,927	(92,109)
Board of Education	36,002	0	0	(36,002)
Administration	505,658	72,936	35,919	(396,803)
Fiscal	311,520	0	0	(311,520)
Business	38,876	23,502	0	(15,374)
Operation and Maintenance of Plant	598,992	0	630	(598,362)
Pupil Transportation	31,712	0	0	(31,712)
Central	51,418	0	22,083	(29,335)
Operation of Non-Instructional Services:				
Food Service Operations	176,821	79,969	28,783	(68,069)
Extracurricular Activities	7,373	655	0	(6,718)
<i>Total Governmental Activities</i>	<u>\$5,635,409</u>	<u>\$436,610</u>	<u>\$1,520,877</u>	<u>(3,677,922)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				1,579,672
Capital Outlay				134,394
Grants and Entitlements not Restricted to Specific Programs				2,168,298
Investment Earnings				65,418
Rent				5,649
Miscellaneous				11,839
<i>Total General Revenues</i>				<u>3,965,270</u>
Change in Net Assets				287,348
<i>Net Assets Beginning of Year (Restated - Note 3)</i>				<u>9,161,970</u>
<i>Net Assets End of Year</i>				<u><u>\$9,449,318</u></u>

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Vocational Education Equipment	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,030,696	\$758,285	\$882,742	\$1,233,774	\$5,905,497
Materials and Supplies Inventory	0	0	0	7,229	7,229
Accrued Interest Receivable	0	67,871	0	2,681	70,552
Interfund Receivable	99,180	0	0	0	99,180
Intergovernmental Receivable	0	0	0	59,280	59,280
Prepaid Items	17,678	0	0	0	17,678
Property Taxes Receivable	1,708,672	145,723	0	0	1,854,395
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	48,505	0	0	0	48,505
<i>Total Assets</i>	<u>\$4,904,731</u>	<u>\$971,879</u>	<u>\$882,742</u>	<u>\$1,302,964</u>	<u>\$8,062,316</u>
Liabilities					
Accounts Payable	\$12,040	\$0	\$0	\$3,396	\$15,436
Accrued Wages and Benefits	385,279	0	0	24,047	409,326
Interfund Payable	0	0	0	99,180	99,180
Intergovernmental Payable	53,288	0	0	2,743	56,031
Deferred Revenue	1,450,945	175,426	0	2,043	1,628,414
<i>Total Liabilities</i>	<u>1,901,552</u>	<u>175,426</u>	<u>0</u>	<u>131,409</u>	<u>2,208,387</u>
Fund Balances					
Reserved for Encumbrances	110,538	7,039	0	47,331	164,908
Reserved for Property Taxes	208,043	18,326	0	0	226,369
Reserved for Budget Stabilization	20,297	0	0	0	20,297
Reserved for Capital Improvements	28,208	0	0	0	28,208
Unreserved:					
Undesignated, Reported in:					
General Fund	2,636,093	0	0	0	2,636,093
Special Revenue Funds	0	0	0	1,124,224	1,124,224
Capital Projects Funds	0	771,088	882,742	0	1,653,830
<i>Total Fund Balances</i>	<u>3,003,179</u>	<u>796,453</u>	<u>882,742</u>	<u>1,171,555</u>	<u>5,853,929</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,904,731</u>	<u>\$971,879</u>	<u>\$882,742</u>	<u>\$1,302,964</u>	<u>\$8,062,316</u>

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances \$5,853,929

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets	9,730,758	
Accumulated depreciation	(6,047,086)	
Total capital assets	<u>3,683,672</u>	3,683,672

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Taxes	80,947	
Interest	<u>53,752</u>	
		134,699

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (18,267)

Compensated absences are not due and payable in the current period and therefore are not reported in the funds. (204,715)

Net Assets of Governmental Activities \$9,449,318

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Vocational Education Equipment	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Local Taxes	\$1,622,732	\$137,597	\$0	\$0	\$1,760,329
Intergovernmental	3,274,603	16,173	0	443,552	3,734,328
Interest	0	48,177	0	1,903	50,080
Tuition and Fees	12,510	0	0	229,484	241,994
Rent	5,649	0	0	0	5,649
Extracurricular Activities	655	0	0	0	655
Gifts and Donations	32	0	0	0	32
Customer Sales and Services	13,274	0	0	171,995	185,269
Miscellaneous	7,936	0	0	12,595	20,531
<i>Total Revenues</i>	<u>4,937,391</u>	<u>201,947</u>	<u>0</u>	<u>859,529</u>	<u>5,998,867</u>
Expenditures					
Current:					
Instruction:					
Regular	143,041	0	267	6,523	149,831
Vocational	2,834,206	0	14,060	173,320	3,021,586
Adult/Continuing	0	0	0	201,619	201,619
Support Services:					
Pupils	156,976	0	0	177,206	334,182
Instructional Staff	69,551	0	0	19,343	88,894
Board of Education	35,096	0	0	0	35,096
Administration	377,440	0	0	114,856	492,296
Fiscal	297,876	5,203	0	0	303,079
Business	18,256	0	0	19,347	37,603
Operation and Maintenance of Plant	487,185	67,491	0	502	555,178
Pupil Transportation	29,049	0	0	0	29,049
Central	28,321	0	0	18,984	47,305
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	173,732	173,732
Extracurricular Activities	7,373	0	0	0	7,373
Capital Outlay	138	40,555	0	0	40,693
<i>Total Expenditures</i>	<u>4,484,508</u>	<u>113,249</u>	<u>14,327</u>	<u>905,432</u>	<u>5,517,516</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>452,883</u>	<u>88,698</u>	<u>(14,327)</u>	<u>(45,903)</u>	<u>481,351</u>
Other Financing Sources and Uses					
Transfers-In	0	0	0	161,250	161,250
Proceeds from Sale of Fixed Assets	1,739	0	0	0	1,739
Transfers-Out	(161,250)	0	0	0	(161,250)
<i>Total Other Financing Sources and Uses</i>	<u>(159,511)</u>	<u>0</u>	<u>0</u>	<u>161,250</u>	<u>1,739</u>
<i>Net Change in Fund Balances</i>	293,372	88,698	(14,327)	115,347	483,090
<i>Fund Balance at Beginning of Year (Restated - Note 3)</i>	<u>2,709,807</u>	<u>707,755</u>	<u>897,069</u>	<u>1,056,208</u>	<u>5,370,839</u>
<i>Fund Balance at End of Year</i>	<u>\$3,003,179</u>	<u>\$796,453</u>	<u>\$882,742</u>	<u>\$1,171,555</u>	<u>\$5,853,929</u>

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
*Reconciliation of the Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$483,090

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

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

Fixed asset additions	357,778	
Depreciation expense	<u>(398,413)</u>	
Excess of capital outlay over depreciation expense		(40,635)

The proceeds from the sale of fixed assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of fixed assets resulting in a loss on the sale of fixed assets in the statement of activities.

Proceeds from Sale of Capital Assets	(1,739)	
Loss on Disposal of Capital Assets	<u>(3,302)</u>	
		(5,041)

Because, some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes	(46,263)	
Intergovernmental	(43,668)	
Interest	<u>13,821</u>	
		(76,110)

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 compensated absences	(64,820)	
Increase in intergovernmental payable	<u>(9,136)</u>	
Total additional expenditures		<u>(73,956)</u>

Change in Net Assets of Governmental Activities \$287,348

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational 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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property and Other Local Taxes	\$1,772,000	\$1,593,908	\$1,609,346	\$15,438
Intergovernmental	2,519,049	3,274,421	3,274,603	182
Tuition and Fees	9,463	12,300	12,510	210
Rent	4,231	5,500	5,649	149
Gifts and Donations	25	32	32	0
Customer Sales and Services	10,212	13,274	13,274	0
Miscellaneous	154	200	200	0
<i>Total Revenues</i>	<u>4,315,133</u>	<u>4,899,635</u>	<u>4,915,614</u>	<u>15,979</u>
Expenditures				
Current:				
Instruction:				
Regular	158,115	157,789	144,802	12,987
Vocational	3,145,058	3,125,348	2,978,390	146,958
Support Services:				
Pupils	155,521	152,704	152,027	677
Instructional Staff	68,542	75,348	69,363	5,985
Board of Education	50,390	48,355	35,073	13,282
Administration	379,724	383,445	373,369	10,076
Fiscal	307,238	311,832	294,405	17,427
Business	17,388	21,927	18,256	3,671
Operation and Maintenance of Plant	513,155	525,165	493,315	31,850
Pupil Transportation	29,219	38,690	29,310	9,380
Central	40,334	43,153	30,181	12,972
Extracurricular Activities	6,500	0	0	0
Capital Outlay	4,000	4,000	138	3,862
<i>Total Expenditures</i>	<u>4,875,184</u>	<u>4,887,756</u>	<u>4,618,629</u>	<u>269,127</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(560,051)</u>	<u>11,879</u>	<u>296,985</u>	<u>285,106</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	1,269	1,650	1,739	89
Refund of Prior Year Expenditures	5,951	7,736	7,736	0
Advances-In	139,057	180,755	180,755	0
Transfers-Out	(200,000)	(168,250)	(168,250)	0
Refund of Prior Year Receipts	0	(350)	(331)	19
Advances-Out	(100,000)	(100,000)	(99,853)	147
<i>Total Other Financing Sources (Uses)</i>	<u>(153,722)</u>	<u>(78,459)</u>	<u>(78,204)</u>	<u>255</u>
<i>Net Change in Fund Balance</i>	(713,773)	(66,580)	218,781	285,361
<i>Fund Balance Beginning of Year</i>	2,669,950	2,669,950	2,669,950	0
<i>Prior Year Encumbrances Appropriated</i>	69,973	69,973	69,973	0
<i>Fund Balance End of Year</i>	<u>\$2,026,150</u>	<u>\$2,673,343</u>	<u>\$2,958,704</u>	<u>\$285,361</u>

See accompanying notes to the basic financial statements

Southern Hills Joint Vocational School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$3,403	\$26,434
Liabilities		
Undistributed Monies	0	\$26,434
Net Assets		
Held in Trust for Scholarships	3,403	
<i>Total Net Assets</i>	\$3,403	

See accompanying notes to the basic financial statements

*Southern Hills Joint Vocational School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004*

	Private Purpose Trust
	Scholarship
Additions	
Contributions	\$1,264
Deductions	
Scholarships Awarded	1,900
<i>Change in Net Assets</i>	(636)
<i>Net Assets Beginning of Year</i>	4,039
<i>Net Assets End of Year</i>	\$3,403

See accompanying notes to the basic financial statements

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Southern Hills Joint Vocational School District (the "School District") is a distinct political subdivision of the State of Ohio operated under the direction of a seven-member Board of Education. The Board of Education is not directly elected. The Board of Education is comprised of members of other elected boards who, by charter, also serve as board members of the Southern Hills Joint Vocational School. The School District provides educational services as authorized by State statute and or federal guidelines.

A board member is appointed by each local board of education within the Joint Vocational School District. The board is appointed by the boards of Georgetown Exempted Village School District and Western Brown, Eastern, Fayetteville Perry and Ripley-Union-Lewis-Huntington Local School Districts. Bright Local School District has assigned their appointment to the Highland-Clinton-Fayette Educational Service District. The Brown County Educational Service Center makes the final appointment to the Board. The Joint Vocational School is responsible for levying taxes, approving its own budget, appointing personnel, and accounting and finance related activities. The School District provides educational services as authorized by State statute and or federal guidelines.

The School District, located in Brown County, was established in 1970 and includes all of Brown County and Bright Local School District in Highland County. The School District serves an area of approximately 634 square miles. It is staffed by 22 non-certificated and 39 certificated teaching personnel and administrative employees providing education to 411 secondary students and 1,903 adult students.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure 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 Southern Hills Joint Vocational School District, this includes general operations, food service, continuing education and student related activities of the School District.

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY
(continued)

The School District participates in four organizations, two of which are defined as jointly governed organizations, one as an insurance purchasing pool, and one as a public entity shared risk and insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Coalition of Rural and Appalachian Schools, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 15, 16 and 17 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southern Hills Joint Vocational 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 after 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 distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds: 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.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Improvement Capital Projects Fund – This fund accounts for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, of the Ohio Revised Code.

Vocational Education Equipment Capital Projects Fund – This fund accounts for resources received and expended for the replacement and updating of equipment essential for the instruction of students in job skills.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund, and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The 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.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). 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 nonexchange transactions must also be available before it can be recognized.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available for advance, grants and interest.

Deferred Revenue

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

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

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

Expenses/Expenditures

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

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

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.

During fiscal year 2004, the School District's investments were limited to nonnegotiable certificates of deposit, repurchase agreements, State Treasury Assets Reserve of Ohio (STAROhio), negotiable certificates of deposits, Federal Home Loan Mortgage Corporation Bonds, and Federal Home Loan Bank Bonds. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

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 equivalents.

F. Interfund Balances

On fund financial statements, outstanding interfund loans are reported as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the statement of net assets.

G. 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 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 include amounts required by statute to be set-aside by the School District to create a reserve for budget stabilization and capital improvements. See Note 18 for additional information regarding set-asides.

H. Inventory

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

I. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. 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) 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 five hundred 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.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Description	Estimated Lives
Land Improvements	15 years
Buildings and Improvements	20 - 50 years
Furniture and Equipment	8 - 10 years
Vehicles	10 years

J. Compensated Absences

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

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

K. Accrued Liabilities and Long-term Obligations

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

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balance Reserves

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

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 2004. The reserve for budget stabilization represents money required to be set aside by statute to protect against cyclical changes in revenues and expenditures.

M. Net Assets

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

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

N. 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.

O. 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.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. 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 year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported in the final column of the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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

Q. Prepaid Items

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES/NETASSETS

A. Change in Accounting Principles

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

B. Restatement of Prior Year Fund Balances/Net Assets

For fiscal year 2004, the District evaluated the fund classification for the adult education, uniform school supplies and rotary funds, which were reported as enterprise funds in previous years. It was determined that these funds are not self supporting, and they were, therefore restated and reclassified as special revenue funds. In addition, it was noted that the fund balance in the VEPD Grant Special Revenue Fund was overstated. This had the following effect on fund balances and net assets as they were previously reported.

	All Other Governmental Funds
Fund Balances, June 30, 2003	<u>\$425,553</u>
Fund Reclassification	651,064
Error Correction	(20,409)
Adjusted Fund Balance, June 30, 2003	<u>\$1,056,208</u>
Governmental Net Assets, June 30, 2003	\$8,522,524
Fund Reclassification	651,064
Error Correction	(20,409)
Capital Assets of Reclassified Funds, Net	8,791
Governmental Net Assets, June 30, 2003	<u>\$9,161,970</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance	
GAAP Basis	\$293,372
Adjustments:	
Revenue Accruals	(14,041)
Expenditure Accruals	(13,955)
Transfers	(7,000)
Advances	80,902
Encumbrances	(120,497)
Budget Basis	\$218,781

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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 accounts, including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

Cash on Hand: At year-end, the School District had \$800 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,754,949 and the bank balance was \$1,986,929. Of the bank balance, \$993,000 was covered by federal depository insurance and \$993,929 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Unclassified	Category 1	Category 2	Category 3	Carrying and Fair Value
Repurchase Agreement	\$0	\$0	\$0	\$1,032,448	\$1,032,448
STAROhio	316,600	0	0	0	316,600
Negotiable Certificates of Deposit	0	1,084,042	0	0	1,084,042
Federal Home Loan Mortgage Corporation Bonds	0	0	100,000	0	100,000
Federal Home Loan Bank Bonds	0	0	1,695,000	0	1,695,000
Totals	\$316,600	\$1,084,042	\$1,795,000	\$1,032,448	\$4,228,090

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in *GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."*

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$5,983,839	\$0
Cash on Hand	(800)	0
Investments:		
Repurchase Agreement	(1,032,448)	1,032,448
STAROhio	(316,600)	316,600
Negotiable Certificates of Deposit	(1,084,042)	1,084,042
Federal Home Loan Mortgage Corporation Bonds	(100,000)	100,000
Federal Home Loan Bank Bonds	(1,695,000)	1,695,000
GASB Statement No. 3	\$1,754,949	\$4,228,090

NOTE 6 - PROPERTY TAXES

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 6 - PROPERTY TAXES (continued)

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

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently 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. This year, the June 2004 tangible personal property tax settlement was not received until July 2004.

The School District receives property taxes from Adams, Brown, Clinton and Highland 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 6 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2004, was \$208,043 in the General Fund and \$18,326 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$214,868 in the General Fund and \$18,875 in the Permanent Improvement Capital Projects Fund.

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

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$502,628,430	89.64%	\$569,191,220	91.19%
Public Utility	31,802,800	5.67%	31,947,030	5.12%
Tangible Personal Property	26,271,170	4.69%	23,034,560	3.69%
Total Assessed Value	<u>\$560,702,400</u>	<u>100.00%</u>	<u>\$624,172,810</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$5.80		\$5.80	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of interest, interfund, intergovernmental grants, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivable amounts are expected to be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Vocational Education Equipment	\$27,398
Title VI	4,235
Drug Free Schools	795
Miscellaneous State Grants	2,100
Adult Education	<u>24,752</u>
Total Intergovernmental Receivables	<u>\$59,280</u>

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 8 - CAPITAL ASSETS

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

	Ending Balance 6/30/2003	Additions	Deletions	Ending Balance 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$68,701	\$0	\$0	\$68,701
Capital Assets Being Depreciated				
Land Improvements	365,380	20,790	0	386,170
Buildings and Improvements	5,215,383	15,703	0	5,231,086
Furniture and Equipment	3,563,809	313,206	(25,867)	3,851,148
Vehicles	185,574	8,079	0	193,653
Total Capital Assets, Being Depreciated	9,330,146	357,778	(25,867)	9,662,057
Less Accumulated Depreciation:				
Land Improvements	(336,407)	(21,313)	0	(357,720)
Buildings and Improvements	(2,965,059)	(100,137)	0	(3,065,196)
Furniture and Equipment	(2,208,381)	(268,412)	20,826	(2,455,967)
Vehicles	(159,652)	(8,551)	0	(168,203)
Total Accumulated Depreciation	(5,669,499)	(398,413) *	20,826	(6,047,086)
Total Capital Assets Being Depreciated, Net	3,660,647	(40,635)	(5,041)	3,614,971
Governmental Activities Capital Assets, Net	\$3,729,348	(\$40,635)	(\$5,041)	\$3,683,672

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$5,896
Vocational	304,377
Adult/Continuing Education	1,061
Support Services:	
Pupils	7,501
Instructional Staff	25,753
Board of Education	315
Administration	7,364
Fiscal	3,406
Operation and Maintenance of Plant	18,643
Pupil Transportation	11,372
Central	4,106
Operation of Non-Instruction Services:	
Food Services	8,619
Total Depreciation Expense	<u>\$398,413</u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Property is protected by the Indiana Insurance Company and holds a \$1,000 deductible with a \$12,063,575 limit. The School District's vehicles are covered by the Auto-Owners Insurance under a business policy and hold a \$350 deductible for comprehensive and collision with a \$1,000,000 limit on any accident. School Board errors and omissions coverage is provided by Marsh USA, Inc. and has a \$1,000,000 limit. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 9 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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. 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 Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical and Dental Benefits

The School District participated in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 17) consisting of six districts. The School District has elected to have Medical Mutual provide medical coverage and the dental coverage is being provided through a shared risk pool based on member districts' number of employees. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rate payments of premiums to the Consortium for employee health coverage and dental benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member shall assume and be responsible for the payment of any delinquent contributions relating to the medical insurance and all claims related to dental of its employees from the date of termination, regardless of the date such claims were incurred.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 10 - 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$60,793, \$50,503, and \$32,000, respectively; 95.97 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002.

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 the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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 20, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 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, 2004, 2003, and 2002 were \$283,916, \$311,169, and \$194,045, respectively; 84.63 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$64 made by the School District and \$61 made by the plan members.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$21,840 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$46,373.

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 57.50 days for all personnel.

B. Other Employee Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Jefferson Pilot Insurance Company. Vision insurance is provided to the School District by Vision Service Plan.

NOTE 13 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
<u>Governmental Activities:</u>					
Compensated Absences	\$139,895	\$82,648	\$17,828	\$204,715	\$19,636

Compensated absences will be paid from the general fund.

The School District's overall legal debt margin was \$56,175,553 with an unvoted debt margin of \$624,173 at June 30, 2004.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 14 - INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

		Receivable
		General Fund
Payable	All Other Nonmajor Governmental Funds	\$99,180

The amounts due to the General Fund from All Other Nonmajor Governmental Funds are the result of the School District moving unrestricted balances to support programs and projects accounted for in other funds. The General Fund will be reimbursed when funds become available in the All Other Nonmajor Governmental Funds.

B. Interfund Transfers

Transfers made during the year ended June 30, 2004 were as follows:

		Transfers From
		General Fund
Transfers To	All Other Nonmajor Governmental Funds	\$161,250

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Vinton, Jackson, and Lawrence 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 SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$8,397 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council. The School District paid \$300 to the Coalition for services provided during the year.

NOTE 16 – INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group insurance purchasing pool.

The GRP's business and affairs are conducted by a five member Board of Directors. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 17 – PUBLIC ENTITY SHARED RISK AND INSURANCE PURCHASING POOL

The Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, CoreSource. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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 School District is no longer required to set aside funds in the budget reserve set-aside, with the exception of refunds received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

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

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2003	(\$389,488)	\$0	\$20,297
Current Year Set-aside Replacement	63,345	63,345	0
Qualifying Disbursements	(94,369)	(35,137)	0
Totals	(420,512)	28,208	20,297
Set-aside Reserve Balance as of June 30, 2004	\$0	\$28,208	\$20,297
Required Set-aside Balances Carried Forward to FY 2005	(\$420,512)	\$28,208	\$20,297

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years.

NOTE 19 – STATE SCHOOL FUNDING DECISION

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

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

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

SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 20 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Southern Hills Joint Vocational School District
9193 Hamer Road
Georgetown, Ohio 45121

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Hills Joint Vocational School District (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
January 27, 2005



**Auditor of State
Betty Montgomery**

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**SOUTHERN HILLS JOINT VOCATIONAL SCHOOL DISTRICT
BROWN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**