



**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Swanton Local School District
Fulton County
108 North Main Street
Swanton, Ohio 43558-1032

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Swanton Local School District (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its enterprise funds 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 February 6, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

February 6, 2002

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$55,657	\$193,985	\$653,927	\$34,176,827
Receivables:				
Taxes	5,021,412	49,259	1,397,888	358,964
Accounts		1,438		
Intergovernmental	2,678	29,242		
Accrued Interest	3,453			304,148
Interfund Receivable	27,624			
Materials and Supplies Inventory				
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	353,284			
Advances to Other Funds	25,000			
Fixed Assets				
Accumulated Depreciation				
Other Debits:				
Amount Available in Debt Service Funds for Retirement of General Obligation Debt				
Amount to be Provided from General Government Resources				
Total Assets and Other Debits	\$5,489,108	\$273,924	\$2,051,815	\$34,839,939

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
	\$34,076			\$35,114,472
				6,827,523
\$550				1,988
11,808				43,728
				307,601
				27,624
10,110				10,110
				353,284
				25,000
215,730		\$8,737,994		8,953,724
(169,092)				(169,092)
			\$806,327	806,327
			16,569,748	16,569,748
\$69,106	\$34,076	\$8,737,994	\$17,376,075	\$68,872,037

(Continued)

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, FUND EQUITY, AND OTHER CREDITS:				
Liabilities:				
Account Payable		\$28,360		
Contracts Payable				\$133,230
Accrued Wages and Benefits	\$977,230	19,995		
Compensated Absences Payable	113,110			
Interfund Payable		3,000		
Intergovernmental Payable	147,148	6,284		
Deferred Revenue	4,325,570	40,466	\$1,245,488	312,101
Undistributed Monies				
Notes Payable				
Bond Anticipation Notes				18,000,000
Advances From Other Funds				
Energy Conservation Loan Payable				
General Obligation Bonds Payable				
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	5,563,058	98,105	1,245,488	18,445,331
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Contributed Capital				
Fund Balances:				
Reserved for Encumbrances	91,558	36,574		1,135,127
Reserved for Advances	25,000			
Reserved for Property Taxes	695,842	8,793	152,400	46,863
Reserved for Textbooks	283,055			
Reserved for Budget Stabilization	70,229			
Unreserved, Undesignated	(1,239,634)	130,452	653,927	\$15,212,618
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Equity and Other Credits	(73,950)	175,819	806,327	16,394,608
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities, Fund Equity and Other Credits	\$5,489,108	\$273,924	\$2,051,815	\$34,839,939

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
				\$28,360
				133,230
\$31,450				1,028,675
21,371			\$942,291	1,076,772
24,624				27,624
26,304			61,837	241,573
5,773				5,929,398
	\$19,964			19,964
			111,955	111,955
				18,000,000
25,000				25,000
			245,000	245,000
			16,014,992	16,014,992
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
134,522	19,964		17,376,075	42,882,543
		\$8,737,994		8,737,994
(72,873)				(72,873)
7,457				7,457
				1,263,259
				25,000
				903,898
				283,055
				70,229
	14,112			14,771,475
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(65,416)	14,112	8,737,994		25,989,494
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$69,106	\$34,076	\$8,737,994	\$17,376,075	\$68,872,037

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Intergovernmental	\$4,694,840	\$343,533
Interest	104,829	
Net Increase in Fair Value of Investments		
Tuition and Fees	59,161	41,472
Rent	12,542	
Extracurricular Activities		175,523
Gifts and Donations	19,700	31,860
Property and Other Local Taxes	5,210,416	54,828
Miscellaneous	112,861	
Total Revenues	10,214,349	647,216
Expenditures:		
Instruction:		
Regular	5,337,967	123,853
Special	1,260,016	168,951
Vocational	128,823	
Other	1,571	
Support services:		
Pupils	501,354	375
Instructional Staff	429,460	31,827
Board of Education	12,466	
Administration	895,801	45,955
Fiscal	280,158	9,116
Business	2,361	
Operation and Maintenance of Plant	1,006,968	
Pupil Transportation	633,876	9,493
Central	52,641	
Non-Instructional Services		195,164
Extracurricular activities	278,743	71,949
Capital Outlay		
Debt Service		
Debt Service - Principal		
Debt Service - Interest		
Total Expenditures	10,822,205	656,683
Excess of Revenues Over (Under) Expenditures	(607,856)	(9,467)
Other Financing Sources and Uses		
Operating Transfers In		
Proceeds from Sale of Bonds		
Refund of Prior Year Expenditures	26,854	
Other Financing Sources		
Operating Transfers Out	(33,919)	
Other Financing Uses		(3,950)
Total Other Financing Sources (Uses)	(7,065)	(3,950)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(614,921)	(13,417)
Fund Balance at Beginning of Year	540,971	189,236
Fund Balance at End of Year	(\$73,950)	\$175,819

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$71,257	\$205,718		\$5,315,348
	304,148	\$586	409,563
	260,777		260,777
			100,633
			12,542
			175,523
			51,560
713,390	345,566		6,324,200
		12,100	124,961
<u>784,647</u>	<u>1,116,209</u>	<u>12,686</u>	<u>12,775,107</u>
			5,461,820
			1,428,967
			128,823
			1,571
			501,729
	81,706		542,993
	54,196		66,662
	66,113		1,007,869
7,502	3,989		300,765
			2,361
			1,006,968
			643,369
			52,641
		13,210	208,374
			350,692
	664,799		664,799
96,177			96,177
23,741			23,741
<u>127,420</u>	<u>870,803</u>	<u>13,210</u>	<u>12,490,321</u>
<u>657,227</u>	<u>245,406</u>	<u>(524)</u>	<u>284,786</u>
94,579			94,579
	16,000,000		16,000,000
			26,854
	58,734		58,734
	(60,660)		(94,579)
			(3,950)
<u>94,579</u>	<u>15,998,074</u>		<u>16,081,638</u>
751,806	16,243,480	(524)	16,366,424
54,521	151,128	14,636	950,492
<u>\$806,327</u>	<u>\$16,394,608</u>	<u>\$14,112</u>	<u>\$17,316,916</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Combined Statement of Revenues, Expenses, and Changes in Fund Equity
Enterprise Funds
For the Fiscal Year Ended June 30, 2001**

	Enterprise
Operating Revenues:	
Sales	\$268,296
Other Operating Revenues	323
Total Operating Revenues	268,619
Operating Expenses	
Salaries	160,951
Fringe Benefits	80,628
Purchased Services	2,371
Materials and Supplies	177,168
Depreciation	6,692
Other	1,033
Total Operating Expenses	428,843
Operating Loss	(160,224)
Non-Operating Revenues and Expenses	
Federal Donated Commodities	32,337
Federal and State Subsidies	84,209
Loss on Sale of Fixed Assets	(1,649)
Total Non-Operating Revenues and Expenses	114,897
Net Loss	(45,327)
Retained Earnings at Beginning of Year	(27,546)
Retained Earnings at End of Year	(72,873)
Contributed Capital at End of Year	7,457
Total Fund Equity at End of Year	(\$65,416)

The notes to the general-purpose financial statements are an integral part of this statement.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Combined Statement of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2001**

	Enterprise
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities:	
Cash Received from Sales	\$267,746
Other Cash Receipts	323
Cash Payments to Suppliers for Goods and Service	(144,929)
Cash Payments for Contract Services	(2,371)
Cash Payments for Employee Services	(157,475)
Cash Payments for Employee Benefits	(79,458)
Other Cash Payments	(1,033)
	(117,197)
Net Cash Provided (Used) by Operating Activities	(117,197)
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received	84,104
Advance In	24,624
	108,728
Net Cash Provided (Used) by Noncapital Financing Activities	108,728
Net Increase (Decrease) in Cash and Cash Equivalents	(8,469)
Cash and Cash Equivalents at Beginning of Year	8,469
	8,469
Cash and Cash Equivalents at End of Year	
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	(\$160,224)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	6,692
Donated Commodities Used During the Year	32,337
(Increase) Decrease in Assets:	
Accounts Receivable	(550)
Material and Supplies Inventory	(283)
Prepaid Items	650
Increase (Decrease) in Liabilities:	
Compensated Absences Payable	3,533
Intergovernmental Payable	(1,475)
Deferred Revenue	271
Accrued Wages and Benefits	1,852
	43,027
Total Adjustments	43,027
Net Cash Used by Operating Activities	(\$117,197)

The notes to the general-purpose financial statements are an integral part of this statement.

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1887 and serves an area of approximately forty-two square miles. It is located in Fulton and Lucas Counties, and includes all of the Village of Swanton and portions of Fulton, Harding, Spencer, Swan Creek, and Swanton Townships. The School District is the 347th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by 80 classified employees, 105 certified teaching personnel, and six administrative employees who provide services to 1,613 students and other community members. The School District currently operates four instructional buildings and an administration building.

Reporting Entity:

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements 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 Swanton Local School District, this includes general operations, food service, and student-related activities of the School District.

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

The following is included in the School District's reporting entity:

Saint Richards Catholic School

Within the School District's boundaries, Saint Richards Catholic School is operated through the Toledo Catholic Diocese. Current State legislation provides funding to the parochial school. The monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity is reflected in a special revenue fund of the School District.

The School District is associated with three jointly governed organizations, an insurance pool, and a related organization. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Joint Recreation Board, Northwestern Educational Research Council, Penta County Career Center, Northern Buckeye Education Council Workers' Compensation Group

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

Rating Plan, and the Swanton Public Library. Information about these organizations is presented in Notes 16, 17, and 18 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust and agency funds. The full accrual basis of accounting is followed by the proprietary fund types.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

requirements, which specify the fiscal year when the resources are required to be used or the fiscal 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUND TYPES:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

PROPRIETARY FUND TYPE:

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those, found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds - Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUND TYPES:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include an expendable trust fund and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, except those accounted for in proprietary funds or trust funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District, except those accounted for in proprietary funds or trust funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents required are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Fulton County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

The District did not amend and submit the certificate of estimated resources to include the June 30, 2000 unencumbered cash balances or submit any amendments during 2001 to the county budget commission as required by Chapter 5705 of the Ohio Revised Code. GAAP requires the District to present budget vs. actual statements for governmental funds that adopt a budget. However, no budget to actual comparisons of receipts are presented.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

Appropriations were established by the Treasurer and amounts were entered into the budgetary accounting system. However, no evidence was provided that the Board passed appropriations in the minutes during 2001. GAAP requires the District to present budget vs. actual statements for governmental funds that adopt a budget. However, no budget to actual comparisons of disbursements are presented.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types and the expendable trust fund, and reported in the notes to the financial statements for the enterprise funds.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

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

During fiscal year 2001, the School District's investments were limited to repurchase agreements and non-negotiable certificates of deposit. Repurchase agreements and non-negotiable certificates of deposit are reported at cost.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2001 was \$104,829, which included \$18,678 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Inventory

Inventory in the governmental funds is stated at cost while inventory in the enterprise funds is stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in the governmental funds consists of expendable supplies held for consumption. The

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventory in the enterprise funds consists of donated food, purchased food, and school supplies held for resale and is expended when used.

F. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

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. Improvements are capitalized. Improvements to enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of seven to twenty years.

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables." Long-term interfund loans are classified as "Advances to/from Other Funds" and are equally offset by a fund balance reserve account, which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

I. 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.

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Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources. Long-term loans and bonds are reported as liabilities in the general long-term obligations account group until due.

Long-term debt and other obligations financed by the enterprise funds are reported as liabilities in the appropriate fund.

K. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year end.

L. Fund Balance Reserves

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

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

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M. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allocation

Non-Reimbursable Grants

Special Revenue Funds

- Phonics
- Venture Capital
- Auxiliary Services
- Local Professional Development
- Education Management Information Systems
- Disadvantaged Pupil Impact Aid
- Network Connectivity
- SchoolNet Professional Development
- Textbook Subsidy
- Ohio Reads
- State Conflict
- Eisenhower
- Title VI-B
- Title I
- Title VI
- Drug Free
- Public School Preschool
- Title VI-R
- Continuous Improvement
- School to Work

Capital Projects Funds

- SchoolNet Plus
- Power Up
- ADA Grant

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(Continued)**

Reimbursable Grants

General Fund

Driver Education

Special Revenue Fund

E-Rate

Enterprise Fund

National School Lunch Program

Government Donated Commodities

Grants and entitlements were 43 percent of the revenues of the School District's governmental fund types during the 2001 fiscal year.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Use of 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.

P. Total Columns on General-Purpose Financial Statements

Total columns on the general-purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

Accountability

At June 30, 2001, the General fund had deficit fund balance of \$73,950. The Network Connectivity and Title I special revenue funds had deficit fund balances of, \$3,000 and \$11,620, respectively. The Food Service and the Uniform School Supply enterprise funds had deficit retained earnings of \$63,832 and \$1,584, respectively, at June 30, 2001, as a result of accumulated operating losses from prior years. These were created by the application of generally accepted accounting principles.

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(Continued)**

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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

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

Protection of the 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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and the 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse 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.

At fiscal year end, the School District had \$1,086 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".

At fiscal year end, the carrying amount of the School District's deposits was (\$6,841) and the bank balance was \$184,531. Of the bank balance, \$169,262 was covered by federal depository insurance and \$15,269 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are 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 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 for which the securities 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. At June 30, 2001, repurchase agreements, category 3 investments, had a carrying amount and fair value of \$35,473,511.

The classification of cash and cash equivalents and investments on the combined balance sheet are 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 classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 are as follows:

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$35,467,756	
Cash on Hand	(1,086)	
Fifth Third Securities	(14,993,303)	\$14,993,303
Repurchase Agreements	(20,480,208)	20,480,208
GASB Statement No. 3	(\$6,841)	\$35,473,511

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2001 represent the collection of calendar year 2000 taxes. Real property taxes for 2001 were levied after April 1, 2001, on the assessed values as of January 1, 2001, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2001 were levied after April 1, 2001, on the assessed values as of December 31, 2000, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2001 (other than public utility property) represent the collection of calendar year 2001 taxes. Tangible personal property taxes for 2001 were levied after April 1, 2000, on the value as of December 31, 2000. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Fulton and Lucas 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 Counties by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount

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available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2001, was \$695,842 in the General Fund, \$8,793 in the Recreation special revenue fund, \$152,400 in the Bond Retirement debt service fund, and \$46,863 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2000, was \$451,497 in the General Fund, \$4,311 in the Recreation special revenue fund, \$1,166 in the Bond Retirement debt service fund, and \$27,908 in the Permanent Improvement capital projects fund.

Accrued property tax receivable also includes amounts for any late tax settlements made by the Counties. For fiscal year 2001, this amount equaled \$199,516 in the General Fund, \$2,129 in the Recreation special revenue fund, \$38,058 in the Bond Retirement debt service fund, and \$12,242 in the Permanent Improvement capital projects fund. For fiscal year 2000, this amount equaled \$168,308 in the General Fund, \$1,499 in the Recreation special revenue fund, \$375 in the Bond Retirement debt service fund, and \$12,368 in the Permanent Improvement capital projects fund.

The assessed values upon which fiscal year 2001 taxes were collected are:

	<u>2000 Second-Half Collections</u>		<u>2001 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$109,994,910	67.93%	\$109,994,910	67.93%
Industrial/Commercial	18,836,540	11.63%	18,838,540	11.63%
Public Utility	12,338,890	7.62%	12,336,890	7.62%
Tangible Personal	20,757,401	12.82%	20,757,401	12.82%
Total Assessed Value	<u>\$161,927,741</u>	<u>100.00%</u>	<u>\$161,927,741</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$62.05		\$65.25	

6. RECEIVABLES

Receivables at June 30, 2001, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), intergovernmental, accrued interest, and interfund receivables. 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. Accounts receivable at June 30 were \$14,486.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Tuition	\$2,678
Special Revenue:	
Eisenhower Grant	499
Title I	21,608
Title VI	3,065
Drug Free Grant	1,348
Title VI-R	<u>2,722</u>
	29,242

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	Amounts
Enterprise Fund:	
Food Service	
National School Lunch Program	11,808
Total	\$43,728

7. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$215,730
Less Accumulated Depreciation	(169,092)
Net Fixed Assets	\$46,638

A summary of the changes in general fixed assets during fiscal year 2001 follows:

Asset Category	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
Land and Improvements	\$684,073	\$20,849		\$704,922
Buildings and Improvements	3,397,704	166,595		3,564,299
Furniture, Fixtures, and Equipment	2,271,124	260,443	\$173,667	2,357,900
Vehicles	1,067,289	135,785	3,613	1,199,461
Text and Library Books	910,063	1,349		911,412
Totals	\$8,330,253	\$585,021	\$177,280	\$8,737,994

8. INTERFUND ASSETS/LIABILITIES

At June 30, 2001, the General Fund had an interfund receivable of \$27,264 and the Network Connectivity special revenue fund had an interfund payable of \$3,000, the food service enterprise fund had an interfund payable of \$23,040, and the Uniform School Supply enterprise fund had an interfund payable of \$1,584.

At June 30, 2001, the General Fund had an advance to other funds and the Food Service enterprise fund had an advance from other funds, in the amount of \$25,000.

9. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School District contracted for the following coverages:

Coverages provided by Nationwide/Wausau Insurance Companies:

General Liability	
Per Occurrence	\$2,000,000
Total per Year	5,000,000

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Fire Damage (per occurrence)	100,000
Medical Expense (per person)	5,000
Umbrella Liability	2,000,000

Coverages provided by Grange Insurance Company:

Vehicle Liability (combined single limits each accident)	\$1,000,000
Auto Medical Payments	5,000
Uninsured Motorist (combined single limits each accident)	1,000,000

Coverages provided by CNA Insurance Company:

Building and Contents-replacement cost (\$1,000 deductible)	\$23,661,773
Boiler and Machinery (\$5,000 deductible)	various
Inland Marine Coverage (\$100 deductible)	
Audio/Visual Equipment	94,361
Musical Equipment	139,032
Athletic Equipment	25,000
Electronic Data Processing Equipment	156,740
Crime Coverage (no deductible)	
Inside Premises	2,000
Outside Premises	2,000

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

For fiscal year 2001, the School District participated in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays the group rate.

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2001. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent

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for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$538,365, \$130,023, and \$124,618, respectively; 84 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$129,024, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 7.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$138,173, \$49,357, and \$74,723, respectively; 62 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$92,328, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2001, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

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The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2000, the board allocated employer contributions equal to 8 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion on June 30, 2000. The Health Care Reserve Fund allocation for the year ended June 30, 2001 will be 4.5 percent of covered payroll.

For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000. There were 99,011 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2000, the allocation rate is 8.45 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2000, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits were \$252.3 million. The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .6036, then adding the surcharge due as of June 30, 2000, as certified to your district by SERS.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty-five days for all personnel. Upon retirement, payment is made for one-fifth of accrued, but unused sick leave credit to a maximum of forty-five days for all personnel.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

B. Health Care Benefits

The School District offers medical insurance to most employees through Anthem Blue Cross and Blue Shield, dental insurance through Coresource, and life insurance through Anthem Life Insurance Company of Indiana. The cost of the monthly premiums is paid entirely by the Board for full-time employees.

C. Early Retirement Incentive

The School District's Board of Education has approved an Early Retirement Incentive program for SERS employees. Participation is open to those employees who are at least fifty years old, qualify for retirement with the years purchased by the Board, and agree to retire within ninety days after notification that credit has been purchased. The credit cannot exceed the lesser of two years or one-fifth of each member's total service. Employees wishing to participate in the plan must indicate their desire by submitting an application to the Treasurer no later than January 15. The Board has the option of paying the liability in its entirety or in installments. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in June 2001.

The Board has not limited the number of employees participating in the plan in any one year. All payments are made through the payroll process to the credit of the retired employee. During fiscal year 2001, early retirement incentive payments were \$0.

D. Special Termination Benefits

For STRS employees, a cash incentive of \$15,000 is paid to all members who elect to retire under normal circumstances in the first year they are eligible. The employee has the option of participating with a Board approved annuity company for deferring all or a portion of the incentive payment for tax purposes. The employee may choose to defer the payment until January of the following calendar year. To qualify, the employee must have at least fifteen years of service with the School District and must meet all eligibility requirements for retirement under STRS. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in September 2001.

13. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	Interest Rate	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
1998 Fifth Third Loan	5.50%	\$167,932		\$55,977	\$111,955
2000 Energy Conservation Loan	4.60%	270,000		25,000	245,000
1978 Swanton Library Bonds	6.375%	30,000		15,000	15,000
2001 Series Bond Issue	3.0-5.25%		\$15,999,992		15,999,992
Compensated Absences Payable		747,460	194,831		942,291
Intergovernmental Payable		60,841	996		61,837
Total General Long-Term Obligations		<u>\$1,276,233</u>	<u>\$16,195,819</u>	<u>\$95,977</u>	<u>\$17,376,075</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2001 Series Bond Issue - On June 1, 2001, the School District issued \$15,999,992 in voted general obligation bonds for buildings and permanent improvements. The bonds were issued for a twenty-five year period with final maturity on December 1, 2025. The bonds are being retired through the Bond Retirement debt service fund.

1998 Fifth Third Loan - On June 1, 1998, the School District entered into a loan agreement with Fifth Third Bank to finance the construction of new bleachers for the football stadium. The loan, in the amount of \$279,886, is payable annually over a five year period, with the final payment on December 1, 2003. The loan is being repaid through the Bond Retirement debt service fund.

1999 Energy Conservation Loan - On January 1, 1999, the School District obtained a loan, in the amount of \$293,634, to provide energy conservation measures for the School District. The loan was obtained under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372 for a ten-year period, with final maturity during fiscal year 2009. The loan is being repaid through the Bond Retirement debt service fund.

1978 Swanton Library Bonds - On November 1, 1978, the School District issued \$350,000 in voted general obligation bonds for renovations to the Swanton Public Library. The bonds were issued for a twenty-three year period with final maturity on December 1, 2001. The bonds are being retired through the Bond Retirement debt service fund.

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

The School District's overall debt margin was (\$1,426,495) with an unvoted debt margin of \$161,928 at June 30, 2001.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2001, were as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$485,977	\$376,877	\$862,854
2003	630,978	721,557	1,352,535
2004	540,000	701,703	1,241,703
2005	625,000	683,747	1,308,747
2006	690,000	661,660	1,351,660
2007-2026	13,399,992	9,041,057	22,441,049
Total	<u>\$16,371,947</u>	<u>\$12,186,601</u>	<u>\$28,558,548</u>

14. SET ASIDE REQUIREMENTS

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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the School District is required to set aside money for budget stabilization.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2001.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2000	\$131,721		\$41,707
Current Year Set-aside Requirement	227,747	\$227,747	28,522
Current Year Offsets		(227,747)	
Qualifying Disbursements	(76,413)		
Total	<u>\$283,055</u>		<u>\$70,229</u>
Cash Balance Carried Forward to FY 2002			<u>\$353,284</u>
Total Restricted Assets			<u>\$353,284</u>

Amounts of offsets and qualifying disbursements presented in the table were limited to reduce the year-end amount to zero in capital acquisition.

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Swanton Local School District as of and for the fiscal year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$267,623	\$996	\$268,619
Depreciation Expense	6,692		6,692
Operating Income (Loss)	(158,562)	(1,662)	(160,224)
Federal Donated Commodities	32,337		32,337
Grants	84,209		84,209
Loss on Sale of Fixed Assets	(1,649)		(1,649)
Net Income (Loss)	(43,665)	(1,662)	(45,327)
Fixed Asset Reductions	5,889		5,889
Net Working Capital	(110,470)	(1,584)	(112,054)
Total Assets	69,106		69,106
Total Liabilities	132,938	1,584	134,522
Total Fund Equity	(63,832)	(1,584)	(65,416)

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The School District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The NWOCA Assembly consists of the superintendent from each participating school district. The Assembly elects a Council which consists of two representatives from each county. The degree of control exercised by any participating school district is limited to its representation on the Council. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member school districts and bylaws adopted by the representatives of the member school districts. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Northwestern Ohio Educational Research Council, Inc.

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

D. Joint Recreation Board

The School District and the Village of Swanton participate in a Joint Recreation Board created under Ohio Revised Code Section 755.14. Projects undertaken by the Joint Recreation Board are approved by the Board of Education and Village Council. The Joint Recreation Board consists of four representatives appointed by the Swanton Board of Education and five representatives appointed by the Village of Swanton. The degree of control exercised by the School District is limited to its representation on the Joint Recreation Board.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

E. Penta Career Center

The Penta Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the sixteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Penta Career Center, Carrie J. Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551.

17. INSURANCE POOL

Northern Buckeye Education Council 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 Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of two representatives each from Defiance, Fulton, Henry, and Williams Counties and the representative serving as fiscal agent for NBEC. The Executive Director coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

18. RELATED ORGANIZATION

Swanton Public Library - The Swanton Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Swanton Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Swanton Public Library, Rita A. Bayer, Clerk/Treasurer, 305 Chestnut Street, Swanton, Ohio 43558.

19. SCHOOL FOUNDATION PROGRAM

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 6, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration, will have on its future State funding and on its financial operations.

20. CONTINGENT LIABILITIES

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, 2001.

B. Litigation

The School District is party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

21. CONTRACTUAL COMMITMENTS

As of June 30, 2001, the School District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
The Collaborative	\$1,175,581
The Dotson Company, Inc.	45,733
	<u>\$1,221,314</u>

22. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Non-exchange Revenues". These statements establish accounting and financial reporting standards for non-exchange transactions

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from none-exchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. For the School District, the implementation of these statements had no effect on fund balances/retained earnings as previously reported for the fiscal year ended June 30, 2000.

23. BOND ANTICIPATION NOTES PAYABLE

In November 2000, the voters passed a \$18,000,000 bond levy for the purpose of constructing, furnishing and equipping a new high school and renovating, remodeling, adding to, improving, furnishing and equipping school facilities and their sites. On December 27, 2000, the Board issued a \$10,000,000 bond anticipation note at 4.80 percent. On January 18, 2001, the Board issued an \$8,000,000 bond anticipation note at 3.88 percent. The bond anticipation notes were paid off in September of 2001.

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

Swanton Local School District
Fulton County
108 North Main Street
Swanton, Ohio 43558-1032

To the Board of Education:

We have audited the financial statements of Swanton Local School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10126-001, 2001-10126-002 and 2001-10126-003. We also noted immaterial instances of noncompliance that we have reported to management of the Swanton Local School District in a separate letter February 6, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10126-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management in a separate letter dated February 6, 2002.

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

Jim Petro
Auditor of State

February 6, 2002

**SWANTON LOCAL DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

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

FINDING NUMBER 2001-10126-001

Noncompliance Citation

Ohio Revised Code § 5705.36 requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. Ohio Revised Code § 5705.38 requires a board of education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed (delays permitted by law), the board may pass a temporary measure for meeting the ordinary expense of the district until it passes an annual appropriation measure. Ohio Revised Code § 5705.39 requires the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For FY2001 the District did not certify to the county auditor the total amount from all sources which is available for expenditure along with any unencumbered balances that existed at June 30, 2000. Also, the District did not pass any appropriation measures and subsequently did not obtain from the county auditor the certificate that total appropriations do not exceed total official estimate or amended official estimates.

The budgetary process is essential to management and the board for the planning, control, and evaluation of the financial condition of the district. The deficiency described above resulted in no presentation of budget to actual budgetary statements. Also, not following the budgetary process and not monitoring budgetary information could result in a deficit condition occurring and not being detected in a timely manner. This could impact the future operations and the overall educational environment of the district. To be in compliance with the requirements of the Ohio Revised Code and be able to understand the purpose of the budgetary process, we recommend that:

- The management of the District review the budgetary requirements as outlined by the Ohio Revised Code. These requirements can be reviewed through the Auditor of State website www.auditor.state.oh.us where the Ohio Compliance Supplement and Auditor of State Technical Bulletins are available detailing various budgetary issues and procedures that affect school districts. If further understanding of the budgetary requirements are necessary management should discuss the process with the County Budget Commission, or obtain other outside guidance as to what is required.
- The Board of Education should require presentation of budgetary information at the legal level on control as established by the board for their review. Also, members of the finance committee should compare this information to source documents to ensure the information provided is correct.
- The minutes should reflect all the budgetary actions taken by the board.

FINDING NUMBER 2001-10126-002

Noncompliance Citation

Ohio Revised Code § 5705.391(B) states that school districts are required to prepare 5 year projections of revenues and expenditures as part of the spending plans. Plans are to be updated whenever actual revenues or expenditures deviate from the projections by 5% or more and must be filed with the Department of Education no later than June 30.

The following deficiencies were noted during testing of the FY2001 forecast (approved on December 18, 2000):

- FY2001 actual expenditures exceeded estimated expenditures by 7.7%. No revision was sent to the Department of Education.
- The budget stabilization and textbook and instructional material's reserves were not shown in the amounts of \$70,229 and \$283,055, respectively for FY2001. The FY2000 actual amount reported did not show the reserves at all.
- The FY2000 beginning and ending cash balances reported were overstated by \$73,378 and \$92,183, respectively to FY2000 actual fund cash balances.

The June 30, 2001 unreserved fund balance as reported on the forecast is \$848,186. The accumulated effect as noted above of not showing the amount of reserves and the incorrect FY2000 ending fund balance resulted in a reduction of the June 30, 2001 unreserved fund balance by \$445,467 to a new balance of \$402,719. However, this does take into consideration the effect of the actual expenditures exceeding estimated expenditures by 7.7%.

The results of these deficiencies could result in a misunderstanding of the district's financial condition by district officials and the State Department of Education and possibly delay board action for the need to implement procedures to cut expenditures or seek additional funding. Also, violation of the budget reserve requirements and issuing of 412 certifications when the funding is not available to meet those obligations could occur. In order to ensure that the requirements over the 5 year forecasts are being followed, we recommend:

- The district should review Auditor of State Bulletin 98-015 as to the requirements of the forecast.
- The Board should compare the actual information reported on the forecast to supporting documents and reports.
- The Board should review the current forecasts submitted to the Department of Education to ensure that the historical actual data is correct and determine if any revisions are needed.

FINDING NUMBER 2001-10126-003

Noncompliance Citation

Ohio Revised Code § 3315.17(A) states the board of education shall establish a textbook and instructional materials fund. Each board annually shall deposit into that fund an amount derived from revenues received by the district for operating expenses that is equal to three per cent of the formula amount for the preceding year Money in the fund shall be used solely for textbooks, instructional software, and instructional materials, supplies, and equipment. Any money in the fund that is not used in any fiscal year shall carry forward to the next fiscal year.

**FINDING NUMBER 2001-10126-003
(Continued)**

The District has not established the required fund and the amount of the required set aside as of June 30, 2001 is \$283,055.

In discussion with district officials the district had completely updated their textbooks in 1999 and there has been no need to expend monies in fiscal years 2000 and 2001 for textbooks, which would have reduced the amount of these set asides.

We recommend that the district set aside (i.e., compute) the amount as mentioned above for the General Fund or the District should review Ohio Revised Code § 3315.17(D) which allows these funds to be used for expenses other than textbooks if certain criteria are met and approvals are obtained.

FINDING NUMBER 2001-10126-004

Material Weakness - Minute Record

The minute record does not identify all the required budgetary actions (i.e. adopting permanent appropriations, budgetary amendments, interfund transfers, establishment of new funds). Also, minute records do not indicate awarding of contracts, depository agreements, hiring of personnel and other actions taken by the board. The minute record refers to exhibits within the board agendas and passage indicated in the minutes reference to these exhibits. Review of the board agendas lacked the specific budgetary actions that are required to be taken by the board.

The minutes are the source of permanent actions taken by the board and are to be retained. With the use of the board agendas there is a possibility that the agendas may not be retained and the actions taken by the board are lost. This practice could have a detrimental effect on the district if any actions are taken against the board and the actions of the board cannot be determined.

To ensure that the actions taken by the board are immortalized, we recommend that the minutes reflect all actions voted on by the board.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-10126-001	Total appropriations exceed the total estimated resources for several funds.	No	No determination could be made since budget statements were not presented.



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SWANTON LOCAL SCHOOL DISTRICT

FULTON 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
FEBRUARY 28, 2002**