



**Auditor of State
Betty Montgomery**

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

Table of Contents

Title	Page
Independent Accountants' Report.....	1
Combined Balance Sheet - All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types.....	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental and Similar Fiduciary Fund Types.....	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary and Similar Fiduciary Fund Types	14
Combined Statement of Cash Flows - All Proprietary and Similar Fiduciary Fund Types	15
Notes to the General-Purpose Financial Statements	17
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	43
Schedule of Findings.....	45
Schedule of Prior Audit Findings.....	47

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Patrick Henry Local School District
Henry County
6900 State Route 18
Hamler, Ohio 43524-9781

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Patrick Henry Local School District (the District) as of and for the year ended June 30, 2002, 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 Patrick Henry Local School District, Henry County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary and similar fiduciary fund types 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, 2003 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.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 6, 2003

This page intentionally left blank.

This page intentionally left blank.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,630,905	\$245,639	\$225,539
Receivables:			
Taxes	1,954,443		305,018
Accounts	7,970	303	
Intergovernmental		35,281	5,396,861
Accrued Interest	4,801		
Interfund Receivable	62,000		
Income Tax	561,570		
Materials and Supplies Inventory			
Prepaid Items	26,215		
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	23,745		
Fixed Assets (Net of accumulated depreciation where applicable)			
Other Debits:			
Amount to be Provided From General Government Resources			
Total Assets and Other Debits	\$4,271,649	\$281,223	\$5,927,418

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$32,952	\$34,622			\$2,169,657
				2,259,461
305				8,578
8,743				5,440,885
				4,801
				62,000
				561,570
16,702				16,702
				26,215
				23,745
53,337		\$9,252,024		9,305,361
			\$1,669,920	1,669,920
<u>\$112,039</u>	<u>\$34,622</u>	<u>\$9,252,024</u>	<u>\$1,669,920</u>	<u>\$21,548,895</u>

(Continued)

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002
(Continued)**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$46,319	\$6,986	\$3,500
Accrued Wages and Benefits	765,927	11,314	
Compensated Absences Payable	49,197		
Interfund Payable		12,000	
Intergovernmental Payable	101,700	3,080	
Deferred Revenue	1,799,761		5,690,589
Due to Students			
Capital Lease Payable			
Notes Payable			
Energy Conservation Loan Payable			
	2,762,904	33,380	5,694,089
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved for Encumbrances	141,007	15,857	5,375
Reserved for Prepaid Items	26,215		
Reserved for Advances			
Reserved for Contributions			
Reserved for Property Taxes	154,682		11,290
Reserved for Budget Stabilization	23,745		
Unreserved, Undesignated	1,163,096	231,986	216,664
	1,508,745	247,843	233,329
Total Liabilities, Fund Equity and Other Credits	\$4,271,649	\$281,223	\$5,927,418

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

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$207				\$57,012
32,924				810,165
11,373			\$632,229	692,799
50,000				62,000
14,531			65,508	184,819
11,191				7,501,541
	\$24,594			24,594
			258,183	258,183
			434,000	434,000
			280,000	280,000
<u>120,226</u>	<u>24,594</u>		<u>1,669,920</u>	<u>10,305,113</u>
		\$9,252,024		9,252,024
(8,187)				(8,187)
				162,239
				26,215
	7,014			-
				7,014
				165,972
				23,745
	3,014			1,614,760
<u>(8,187)</u>	<u>10,028</u>	<u>9,252,024</u>		<u>11,243,782</u>
<u>\$112,039</u>	<u>\$34,622</u>	<u>\$9,252,024</u>	<u>\$1,669,920</u>	<u>\$21,548,895</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Intergovernmental	\$4,362,904	\$344,848
Interest	69,562	
Tuition and Fees	15,666	2,790
Rent	40	
Extracurricular Activities		197,932
Gifts and Donations		
Income Tax	1,585,037	
Property and Other Local Taxes	1,881,991	
Miscellaneous	6,741	54,425
Total Revenues	7,921,941	599,995
Expenditures:		
Instruction:		
Regular	4,427,329	80,642
Special	73,259	216,662
Vocational	263,309	6,555
Other	145,073	
Support services:		
Pupils	233,781	17,189
Instructional Staff	280,886	22,964
Board of Education	19,001	
Administration	728,743	61,304
Fiscal	296,634	230
Business	81,031	
Operation and Maintenance of Plant	644,064	
Pupil Transportation	377,919	
Central	170,672	12,893
Non-Instructional Services		1,135
Extracurricular activities	190,773	182,037
Capital Outlay	276,292	
Debt Service		
Debt Service - Principal	18,109	
Debt Service - Interest	5,802	
Total Expenditures	8,232,677	601,611
Excess of Revenues Over (Under) Expenditures	(310,736)	(1,616)
Other Financing Sources and Uses		
Operating Transfers In		
Inception of Capital Lease	276,292	
Other Financing Sources	5,938	2,485
Operating Transfers Out	(94,397)	
Other Financing Uses		(2,403)
Total Other Financing Sources (Uses)	187,833	82
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(122,903)	(1,534)
Fund Balance at Beginning of Year	1,631,648	249,377
Fund Balance at End of Year	\$1,508,745	\$247,843

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	
	\$18,277		\$4,726,029
		\$63	69,625
			18,456
			40
			197,932
		22,699	22,699
	136,628		1,585,037
			2,018,619
			61,166
	<u>154,905</u>	<u>22,762</u>	<u>8,699,603</u>
	8,693		4,516,664
			289,921
			269,864
			145,073
			250,970
		31,824	335,674
			19,001
			790,047
	1,240		298,104
			81,031
	150,809		794,873
			377,919
	12,000		195,565
			1,135
		938	373,748
			276,292
\$48,000			66,109
14,440			20,242
<u>62,440</u>	<u>172,742</u>	<u>32,762</u>	<u>9,102,232</u>
<u>(62,440)</u>	<u>(17,837)</u>	<u>(10,000)</u>	<u>(402,629)</u>
62,440			62,440
			276,292
			8,423
			(94,397)
			(2,403)
<u>62,440</u>			<u>250,355</u>
	(17,837)	(10,000)	(152,274)
	251,166	13,000	2,145,191
	<u>\$233,329</u>	<u>\$3,000</u>	<u>\$1,992,917</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Trust Fund Types
For the Year Ended June 30, 2002**

	<u>General</u>		Variance: Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
Total Revenues	<u>\$7,252,271</u>	<u>\$7,958,084</u>	<u>\$705,813</u>
Expenditures:			
Personal Services - Salaries	4,489,252	4,376,906	112,346
Employee Retirement and Health Insurance	2,072,564	1,665,349	407,215
Purchased Services	1,165,913	696,502	469,411
Supplies and Materials	416,250	303,817	112,433
Capital Outlay	571,859	332,853	239,006
Capital Outlay - Replacement	94,513	93,303	1,210
Miscellaneous	1,352,904	836,984	515,920
Other Uses of Funds	359,074	157,089	201,985
Total Expenditures	<u>10,522,329</u>	<u>8,462,803</u>	<u>2,059,526</u>
Excess of Expenditures Over Revenues	<u>(3,270,058)</u>	<u>(504,719)</u>	<u>2,765,339</u>
Fund Balances at Beginning of Year	1,761,339	1,761,339	
Prior Year Encumbrances Appropriated	<u>211,542</u>	<u>211,542</u>	
Fund Balance at End of Year	<u>(\$1,297,177)</u>	<u>\$1,468,162</u>	<u>\$2,765,339</u>

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$715,572	\$579,723	(\$135,849)	\$62,440	\$62,440	
999,636	638,273	361,363	62,440	62,440	
(284,064)	(58,550)	225,514			
212,214	212,214				
69,132	69,132				
(\$2,718)	\$222,796	\$225,514			

(Continued)

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Trust Fund Types
For the Year Ended June 30, 2002
(Continued)**

	Capital Project Funds		
	Budget	Actual	Variance: Favorable (Unfavorable)
Total Revenues	\$156,001	\$158,250	\$2,249
Expenditures:			
Personal Services-Salaries			
Employee Retirement and Health Insurance			
Purchased Services			
Supplies and Materials			
Capital Outlay			
Capital Outlay - Replacement			
Miscellaneous			
Other Uses of Funds			
Total Expenditures	394,337	179,924	214,413
Excess of Expenditures Over Revenues	(238,336)	(21,674)	216,662
Fund Balances at Beginning of Year	226,089	226,089	
Prior Year Encumbrances Appropriated	12,250	12,250	
Fund Balance at End of Year	\$3	\$216,665	\$216,662

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

Fiduciary Fund Type		
Expendable Trust		
Budget	Actual	Variance: Favorable (Unfavorable)
\$19,774	\$22,762	\$2,988

32,774	32,762	12
(13,000)	(10,000)	3,000
13,000	13,000	
	\$3,000	\$3,000

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Revenues, Expenses and Changes in Fund Equity
All Proprietary and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:			
Sales	\$295,055		\$295,055
Other Revenues	20,637	\$414	21,051
Total Operating Revenues	315,692	414	316,106
Operating Expenses			
Salaries	143,440		143,440
Fringe Benefits	68,778		68,778
Purchased Services	8,329		8,329
Cost of Sales	228,302		228,302
Depreciation	1,304		1,304
Other	985	400	1,385
Total Operating Expenses	451,138	400	451,538
Operating Income (Loss)	(135,446)	14	(135,432)
Non-Operating Revenues and Expenses			
Federal Donated Commodities	34,568		34,568
Federal and State Subsidies	78,411		78,411
Capital Contributions	7,676		7,676
Total Non-Operating Revenues and Expenses	120,655		120,655
Income (Loss) Before Operating Transfers	(14,791)	14	(14,777)
Operating Transfers-In	31,544		31,544
Net Income	16,753	14	16,767
Retained Earnings/Fund Balances at Beginning of Year	(24,940)	7,014	(17,926)
Retained Earnings/Fund Balances at End of Year	(\$8,187)	\$7,028	(\$1,159)

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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Cash Flow
All Proprietary and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Increase/(Decrease) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Sales	\$294,753		\$294,753
Other Cash Receipts	20,637	\$414	21,051
Cash Payments to Suppliers for Goods and Service	(192,592)		(192,592)
Cash Payments for Contract Services	(8,329)		(8,329)
Cash Payments for Employee Services	(147,614)		(147,614)
Cash Payments for Employee Benefits	(68,022)		(68,022)
Other Cash Payments	(985)	(400)	(1,385)
Net Cash Provided (Used) by Operating Activities	<u>(102,152)</u>	<u>14</u>	<u>(102,138)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Grants Received	77,137		77,137
Operating Transfer In	31,544		31,544
Advances In	50,000		50,000
Advances Out	(45,000)		(45,000)
Net Cash Provided by Noncapital Financing Activities	<u>113,681</u>		<u>113,681</u>
Net Increase in Cash and Cash Equivalents	11,529	14	11,543
Cash and Cash Equivalents at Beginning of Year	<u>21,423</u>	<u>7,014</u>	<u>28,437</u>
Cash and Cash Equivalents at End of Year	<u><u>\$32,952</u></u>	<u><u>\$7,028</u></u>	<u><u>\$39,980</u></u>

(Continued)

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Combined Statement of Cash Flow
All Proprietary and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002
(Continued)**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	(\$135,446)	\$14	(\$135,432)
<u>Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operating Activities:</u>			
Depreciation	1,304		1,304
Donated Commodities Used During the Year	34,568		34,568
(Increase) Decrease in Assets:			
Accounts Receivable	(305)		(305)
Material and Supplies Inventory	(1,963)		(1,963)
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	(7,092)		(7,092)
Intergovernmental Payable	537		537
Deferred Revenue	3,369		3,369
Accounts Payable	(262)		(262)
Accrued Wages and Benefits	3,138		3,138
	33,294		33,294
Total Adjustments	33,294		33,294
Net Cash Provided (Used) by Operating Activities	(\$102,152)	\$14	(\$102,138)
Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2002:			
Cash and Cash Equivalents - Trust and Agency Funds			\$34,622
Less: Expendable Trust Funds			(3,000)
Less: Agency Funds			(24,594)
Cash and Cash Equivalents - Nonexpendable Trust Funds			\$7,028

During fiscal year 2002 the General Fund donated \$7,676 in equipment to the Food Service Fund.

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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Patrick Henry 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 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred forty-seven square miles. It is located in Henry, Putnam, and Wood Counties, and includes all of the Village of Hamler, Deshler, Malinta and portions of Marion, Monroe, Richfield, Bartlow, Van Buren, Harrison, and Damascus Townships. The School District is the 462nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 57 classified employees, 81 certified full-time teaching personnel, and 7 administrative employees who provide services to 1,154 students and other community members. The School District currently operates four instructional buildings and one bus garage.

Reporting Entity:

The reporting entity is comprised of the primary government component units and other organizations that are included, to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Patrick Henry 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 Patrick Henry Local School District.

The School District is associated with six organizations, which are defined as jointly governed organizations, insurance pools, and a related organization. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Edwin Wood Memorial Library. These organizations are presented in Notes 17, 18, and 19 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Patrick Henry Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School Districts accounting policies are described below.

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.

The enterprise and nonexpendable trust funds 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. Fund equity (i.e., net total assets) is segregated into retained earnings components. The operating statements present increases (i.e., revenues) and decreases (i.e., 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, expendable trust, and agency funds. The full accrual basis of accounting is followed by the enterprise and nonexpendable trust funds.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes 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 included timing requirements, which specify the year when the revenue resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

which the resources provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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

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

B. Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

1. GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the 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 District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The 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 and trust funds).

2. PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body 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 (b) where the governing body has 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.

3. FIDUCIARY FUNDS

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, and other governmental units and or other funds. These include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

same manner as proprietary funds. Agency funds are custodial in nature. (assets equal liabilities) and do not involve measurement of results of operations.

4. 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 general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary 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 prepared 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. The primary level of budgetary control is at the object level within the general fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Eisenhower, Title VI-B, and Preschool Handicap special revenue funds are pass through grants in which the Northwest Educational Service Center is the primary recipient. Budgetary information for these funds is not included within the School District's reporting entity for which the "appropriated budget" is adopted and the School District does not maintain separate budgetary records.

1. 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 Henry County Budget Commission for rate determination.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

2. 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 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 is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

3. 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 must be legally enacted by the Board of Education. 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 object appropriations within the general fund and total appropriations for all other funds must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, six supplemental appropriation resolutions were legally enacted.

The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

4. 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. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

for governmental funds and reported in the notes to the financial statements for proprietary funds.

5. 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 Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. 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 balance sheet.

During fiscal year 2002, investments were limited to certificates of deposit.

Expect for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at costs.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$69,562, which includes \$17,391 interest earnings 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

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit the periods beyond June 30, 2002 are recorded as prepaid items using the consumption method. A current asset for the prepaid

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

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 proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars except for the cost of books. 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 proprietary 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 proprietary funds is computed using the straight-line method over an estimated useful life of five to twenty years.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund 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

Personal and 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. Sick leave benefits are accrued as a liability using the vesting 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 sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

obligations account group. In proprietary funds, the entire amount or 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 a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are considered not to have used current available resources.

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

K. 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 proprietary 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
School Bus Purchase Allocation
State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds
Management Information System
ONEnet
SchoolNet Professional Development
Ohio Reads Grant
Conflict Management
Safe Schools
Eisenhower
Title VI-B
Title I

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Title VI
Drug Free Grant
Preschool Handicap
School to Work
Title VI-R

Capital Projects Funds
SchoolNet Plus
Technology Equity
Emergency Building Repair

Reimbursable Grants

General Fund
Driver Education

Proprietary Funds
National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 53 percent of the School District's operating revenue during the 2002 fiscal year.

L. 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.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for budget stabilization.

N. 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 encumbrances, prepaid items, advances, contributions, property taxes and budget stabilization.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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 contributions signifies the legal restrictions on the use of principal.

O. Estimates

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

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, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

Accountability

At June 30, 2002, the Food Service fund had deficit retained earnings of \$18,963, as a result of accumulated operating losses from prior years. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Compliance

Although there were no funds with deficit cash balances at fiscal year end, there were six funds found to have deficit cash balances sometime during fiscal year 2002 by a maximum of up to \$8,458.

All funds had appropriations exceeding estimated revenues from July 1, 2001 through September 28, 2001 due to appropriations being passed prior to estimated resources being approved by the budget commission. In addition, there were thirteen funds found to have appropriations in excess of estimated resources and some time during fiscal year 2002, in amounts ranging from \$190 to \$1,298,124.

4. BUDGETARY BASIS OF ACCOUNTING

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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis), as opposed to when susceptible to accrual (GAAP basis)
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for the governmental fund types and expendable trust fund (GAAP basis).
4. Although not part of the appropriated budget, the Eisenhower, Title VI-B, and Preschool Handicap special revenue funds are included as part of the reporting entity when preparing financial statements that conform to GAAP.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types			
	General	Special Revenue	Capital Projects
Budget Basis	(\$504,719)	(\$58,550)	(\$21,674)
Adjustments for:			
Revenue Accruals	246,087	22,757	(3,345)
Expenditure Accruals	(50,758)	11,417	(1,693)
Encumbrances	186,487	22,842	8,875
GAAP Basis	(\$122,903)	(\$1,534)	(\$17,837)

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury.

Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies that 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 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (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 day of purchase unless matched to a specific obligation of the School District and must be purchased with the expectation that it will be held to maturity.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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.

During fiscal year 2002, investments were limited to Certificates of Deposit. All investments of the School District had a maturity of two years or less.

At fiscal year end, the carrying amount of the School District's deposits was \$2,193,402 and the bank balance was \$2,346,082. Of the bank balance, \$221,942 was covered by federal depository insurance and \$2,124,140 was collateralized by securities held by the financial institutions trust department in the School District's name.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". For the District there are no differences in the reporting cash and cash equivalents according to GASB Statement No. 3.

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new 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 property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes.

Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 83 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due, April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Henry, Putnam, and Wood Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

year 2003 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, tangible personal property, and public utility property taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal 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, 2002, was \$154,682 in the General Fund and \$11,290 in the Capital Projects Fund.

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$79,640,980	83.54%	\$81,276,390	83.79%
Public Utility	9,082,570	9.53%	8,357,390	8.62%
Tangible Personal Property	6,610,220	6.93%	7,365,553	7.59%
Total Assessed Value	<u>\$95,333,770</u>	<u>100.00%</u>	<u>\$96,999,333</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$34.75</u>		<u>\$34.75</u>	

7. INCOME TAX

The School District levies a voted tax of one and three-fourths percent for general operations on the income of residents and of estates. The one-percent tax was effective January 1, 1989, and is for a continuing period. The three-fourths percent tax was effective January 1, 1998 and expires December 31, 2002. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amount for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2002, consisted of property and income taxes, accounts (student fees, billings for user charged services, and rent), intergovernmental grants, and accrued interest. 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 fiscal year guarantee of federal funds.

9. FIXED ASSETS

A summary of changes in the Enterprise Fund fixed assets is as follows:

	<u>Enterprise</u>
Furniture and Equipment	\$186,713
Less: Accumulated Depreciation	(133,376)
Net Fixed Assets	<u>\$53,337</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Land and Improvements	\$1,002,469			\$1,002,469
Buildings and Improvements	4,092,401	\$85,672		4,178,073
Furniture and Equipment	2,023,283	446,271	\$10,748	2,458,806
Vehicles	826,075	74,639	31,200	869,514
Text and Library Books	743,162			743,162
Totals	\$8,687,390	\$606,582	\$41,948	\$9,252,024

10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts: theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Indiana Insurance and Nationwide Insurance for the following insurance coverage's.

Building and Contents - replacement cost (\$ 1,000 deductible)	\$19,999,480
Inland Marine Coverage (\$100 deductible)	183,158
Employee Dishonesty Bond - blanket (no deductible)	10,000
Vehicle Liability (combined single limit)	1,000,000
Medical Payments per Person	5,000
Uninsured/Underinsured Motorists	500,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

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

The School District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The School District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including health, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The School District participates 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 participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Patrick Henry Local School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit 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 for STRS. 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 District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contribution for pension obligations to STRS for the fiscal years ending June 30, 2002, 2001, and 2000, were \$374,273, \$355,929, and \$197,782, respectively; 85 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$54,618, is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Patrick Henry Local School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 4.2 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contribution for pension obligations to SERS for the fiscal years ending June 30, 2002, 2001, and 2000 were \$65,229, \$45,451, and \$49,281, respectively; 52 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$33,850, 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 School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$177,306.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

School District, the amount to fund health care benefits, including the surcharge, was \$125,445 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

13. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred ten days for classified and certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days for classified employees and for one-fourth of accrued, but unused sick leave credit to a maximum of 52.5 days for certified employees. Also, classified employees receive payment for accrued, but unused personal leave to a maximum of 10 days.

B. Other Employee Benefits

The School District provides life, health, and dental insurance to most employees through the Northern Buckeye Education Council Employee Insurance Benefits Program.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Reductions	Principal Outstanding 6/30/02
Energy Conservation Loan	\$328,000		\$48,000	\$280,000
Note Payable Fiber Optic		\$465,000	31,000	434,000
Capital Lease Payable		276,292	18,109	258,183
Intergovernmental Payable	55,820	9,688		65,508
Compensated Absences	717,548		85,319	632,229
Total Long-Term Obligations	\$1,101,368	\$750,980	\$182,428	\$1,669,920

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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. Capital leases will be paid from the General Fund.

On February 10, 1997, Patrick Henry Local School District issued \$500,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372.

The notes were issued for a ten fiscal year period with final maturity during fiscal year 2007. The debt will be retired from savings, which are anticipated from the energy conservation improvements. The notes bear interest at 4.75% per annum.

The note payable is part of a Fiber Optic Network Project. The total liability for the district was \$465,000. The District paid \$31,000 in fiscal year 2002. The remaining liability will mature in fiscal year 2016. The note is non-interest bearing.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002 are as follows.

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$83,000	\$12,065	\$95,065
2004	85,000	9,548	94,548
2005	87,000	6,935	93,935
2006	89,000	4,227	93,227
2007	91,000	1,426	92,426
2008 - 2012	155,000		155,000
2013 - 2017	124,000		124,000
Total	\$714,000	\$34,201	\$748,201

The School District's voted legal debt margin was \$8,729,940 with an unvoted debt margin of \$96,999 at June 30, 2002.

15. CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Non-Instructional Services" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements. The equipment acquired by lease has been capitalized in the general fixed assets account group, in the amount of \$266,743. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

the general long-term obligations account group. Principal payments were made in fiscal year 2002, in the amount of \$18,109.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

<u>Fiscal Year Ending June 30,</u>	<u>GLTOAG</u>
2003	\$110,637
2004	102,667
2005	<u>70,786</u>
Total	284,090
Less Amount Representing Interest	<u>(25,907)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$258,183</u></u>

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies, and adult education. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$271,233	\$44,459		\$315,692
Operating Expenses less Depreciation	408,328	41,506		449,834
Depreciation Expense	1,304			1,304
Operating Income (Loss)	(138,399)	2,953		(135,446)
Donated Commodities	34,568			34,568
Grants	78,411			78,411
Operating Transfer In	31,544			31,544
Net Income	13,800	2,953		16,753
Net Working Capital	(72,300)	10,248	\$528	(61,524)
Total Assets	101,263	10,248	528	112,039
Total Liabilities	120,226			120,226
Total Equity	(18,963)	10,248	528	(8,187)
Encumbrances	224	501		725
Capital Contributions	7,676			7,676

17. 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,

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The Northern Buckeye Education Council governs NWOCA and its participating members. In fiscal year 2002, Patrick Henry Local School District contributed \$81,973 to NWOCA. 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 various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,000. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center (Center is a distinct political subdivision of the State of Ohio, which provides vocational education for students. The Center is operated under the Direction of a Board consisting of two representatives from the Fulton County Educational Service Center, one representative from the Defiance, Henry, and Williams Counties' Educational Service Centers, and one representative from the participating school districts. The Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

18. INSURANCE POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (the Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The NBEC and its participating members govern the Program. In fiscal year 2002, Patrick Henry Local School District contributed \$1,071,174, which represents 5% of total contributions. Financial information can be obtained from Northern Buckeye Education Council. Cindy Siler, who serves as Treasurer at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participating members of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participating members pay an enrollment fee, \$863 in fiscal year 2002, to the Plan to cover the costs of administering the program.

19. RELATED ORGANIZATION

Edwin Wood Memorial Library - The Edwin Wood Memorial 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 Patrick Henry Local School District 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 does serve as the taxing authority and may issue tax related debt on behalf of the Library, 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 Edwin Wood Memorial Library, Rhonda Hogrefe, Clerk/Treasurer, at 208 North East Street, Deshler, Ohio 43516.

20. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

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

21. SET ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2002, only the

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

unspent portion of certain workers' compensation refunds continues to be set-aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2001	(\$163,010)		\$23,745
Current Year Set-aside Requirement	151,990	\$151,990	
Current Year Offsets		(139,973)	
Qualifying Disbursements	<u>(326,587)</u>	<u>(12,017)</u>	
Amount Carried Forward To Fiscal Year 2003	<u>(\$337,607)</u>		<u>\$23,745</u>
Set-Aside Reserve Balance June 30, 2002			<u>\$23,745</u>

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

22. STATE SCHOOL FUNDING DECISION

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

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

23. INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2002 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$94,397
Debt Service Fund	\$62,440	
Enterprise Fund - Food Service	31,544	
Agency Fund - Renaissance Club	<u>413</u>	
Total Transfers	<u>\$94,397</u>	<u>\$94,397</u>

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

The District had the following interfund receivables and payables outstanding at June 30, 2002:

	Interfund Receivable	Interfund Payable
General Fund	\$62,000	
Special Revenue Funds:		
Title I		\$7,500
Title VI		50
Title IV		2,150
Title VI-R		2,300
Enterprise Fund:		
Food Service		50,000
Total Transfers	\$62,000	\$62,000

24. SUBSEQUENT EVENT

On July 9, 2002, the District issued notes in the amount of \$5,101,000 with a maturity date of December 18, 2002, to finance a school building construction and renovation project. Subsequently on September 15, 2002, the District issued general obligation bonds in the same amount in order retire bond anticipation notes. The settlement date on these general obligation bonds is September 16, 2002.

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

Patrick Henry Local School District
Henry County
6900 State Route 18
Hamler, Ohio 43524-9781

To the Board of Education:

We have audited the financial statements of Patrick Henry Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 6, 2003. 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 2002-10135-001 and 2002-10135-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated February 6, 2003.

Internal Control Over Financial Reporting

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

employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 6, 2003.

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

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

Betty Montgomery
Auditor of State

February 6, 2003

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Findings
June 30, 2002**

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

FINDING NUMBER 2002-10135-001

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit balance. Although there were no funds with deficit cash balances at fiscal year end, the following funds were found to have deficit balances sometime during fiscal year 2002 by a maximum of the amounts listed:

Fund	Maximum deficit at anytime throughout the year
006 Lunchroom	\$8,458
499 Conflict Management	1,374
572 Title I	7,260
584 Title IV	2,613
590 Title VI-R	4,936
599 HSTW	7,332

To improve controls over individual fund activity we recommend the Treasurer and the Board of Education periodically review the activity in each account to ensure sufficient balances are maintained to pay obligations of the funds and if necessary transfer or advance funds or reduce planned expenditures to eliminate anticipated shortages.

FINDING NUMBER 2002-10135-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that total appropriations from each fund should not exceed the total estimated revenue. No appropriations measure is to be 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.

All funds had appropriations exceeding estimated revenues from July 1, 2001 though September 28, 2001 due to appropriations being passed prior to estimated resources being approved by the budget commission.

The following funds had appropriations exceeding estimated revenue at the documented date:

Fund	Date of Appropriations Exceeding Estimated Resources	Amount
General	9/28/01	\$17,574
	11/19/01	1,298,124
	2/27/02	
	3/18/02	
	5/20/02	
	6/30/02	

Fund	Date of Appropriations Exceeding Estimated Resources	Amount
Jennings Grant	9/28/01	12,113
Athletic Accounts	9/28/01	43,473
LPDC	9/28/01	568
Extended Learning Grant	9/28/01	6,116
Textbook Subsidy	9/28/01	8,667
Title I	9/28/01	15,530
Drug Free	9/28/01	190
Miscellaneous Federal Funds	9/28/01	17,031
Debt Service	9/28/01	62,673
Uniform School Supplies	9/28/01	21,269
Internal Service	9/28/01	1,500
Title VI	5/20/02	3,500

In addition, there were no certificates available from the County Auditor certifying that the total appropriations from each fund did not exceed the total official amended resources. We recommend the District not pass annual appropriations until estimated resources are received from the county auditor and, review planned appropriations and estimated resources to ensure that appropriations are not made in excess of estimated resources, and obtain the required certificates from the County Auditor.

**PATRICK HENRY LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10135-001	ORC § 5705.41(B) expenditures in excess of appropriations	Yes	



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PATRICK HENRY LOCAL SCHOOL DISTRICT

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2003**