



**Auditor of State
Betty Montgomery**

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Swanton Local School District, Fulton County, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the district activities, each major fund and the aggregate remaining fund information of Swanton Local School District, Fulton County, Ohio, as of June 30, 2003, and the respective changes in financial position and budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As described in Note 8, during the year ended June 30, 2003, the School District changed its fixed asset capitalization policy

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

March 22, 2004

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003**

The discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

- In total, net assets decreased \$1,692,685, as the District realized a significant loss of anticipated revenue during the 2002-2003 fiscal year. This is discussed in greater detail within the Current Issues Section of this analysis.
- General revenues accounted for \$11,971,363, or 90 percent of all revenues. Program specific revenues in the form of charges for services and sales; and operating and capital grants and contributions accounted for \$1,275,550 or 10 percent of total revenues of \$13,246,913.
- The District's major funds included the general fund, the bond debt service fund, and the permanent improvement capital project fund. The general fund had \$10,185,039 in revenues and other financing sources and \$12,552,878 in expenditures and other financing uses. The general fund balance decreased \$2,367,839 from the prior fiscal year.
- The bond debt service fund had \$1,363,449 in revenues and other financing sources and \$1,359,275 in expenditures and other financing uses. The bond debt service fund balance increased \$4,174 from the prior fiscal year.
- The permanent improvement capital projects fund had \$2,489,256 in revenues and other financing sources and \$12,068,388 in expenditures and other financing uses. The permanent improvement capital projects fund balance decreased \$9,579,132 from the prior fiscal year primarily due to the completion of the school construction and renovation projects.
- The revenue generated from the debt service fund is used to pay for the current portion of bonded debt.
- During the fiscal year, the District fully retired the Fifth Third Loan for the stadium project.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the general fund is by far the most significant fund. The general fund, the bond debt service fund, and the permanent improvement capital projects fund are the only three major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

- Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The General, Debt Service and Permanent Improvement Capital Projects Funds are the District's most significant major governmental funds.

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

Reporting the District's Fiduciary Responsibilities - The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency fund. All of the District fiduciary activities are reported in separate Statement of Fiduciary Net Assets in accompanied financial statements. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance the operation.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2003. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 91.4 percent of total governmental activities revenue. Tax revenues include monies from District voter approval of the Permanent Improvement levy in 2001 and an Energy Conservation loan in 2002. Reappraisal of Real Estate property values takes place every six years and is known as the triennial update. The District is scheduled for the triennial update in calendar year 2005.

Table 1
Net Assets
Governmental Activities

	2003
Assets	
Current and Other Assets	\$ 6,967,000
Capital Assets, Net	<u>20,217,000</u>
<i>Total Assets</i>	<u>27,184,000</u>
 Liabilities	
Current and Other Liabilities	7,467,000
Long-Term Liabilities	<u>19,121,000</u>
<i>Total Liabilities</i>	<u>26,588,000</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	2,750,000
Restricted	2,275,000
Unrestricted	<u>(4,429,000)</u>
<i>Total</i>	<u>\$ 596,000</u>

Table 2 reflects the changes in net assets for fiscal year 2003. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2002. A comparative analysis will be provided in future years when prior year information is available.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

Table 2
Change in Net Assets
Governmental Activities

	2003
Revenues	
Program Revenues:	
Charges for Services and Sales	\$ 583,000
Operating Grants, Contributions and Interest	675,000
Capital Grants and Contributions	18,000
<i>Total Program Revenues</i>	<i>1,276,000</i>
General Revenues:	
Property Taxes	6,250,000
Grants and Entitlements	5,165,000
Interest	182,000
Gifts and Donations	58,000
Miscellaneous	316,000
<i>Total General Revenues</i>	<i>11,971,000</i>
<i>Total Revenues</i>	<i>13,247,000</i>
Expenses	
Instruction	7,683,000
Support Services:	
Pupils	759,000
Instructional Staff	485,000
Board of Education	112,000
Administration	1,144,000
Fiscal	369,000
Business	1,000
Operation and Maintenance of Plant	1,146,000
Pupil Transportation	816,000
Central	60,000
Non-Instructional	772,000
Extracurricular Activities	429,000
Capital Outlay	330,000
Interest and Fiscal Charges	834,000
<i>Total Expenses</i>	<i>14,940,000</i>
<i>Decrease in Net Assets</i>	<i>\$ (1,693,000)</i>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	2003	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,683,000	\$ 7,156,000
Support Services:		
Pupils	759,000	675,000
Instructional Staff	485,000	459,000
Board of Education	112,000	112,000
Administration	1,144,000	1,125,000
Fiscal	369,000	364,000
Business	1,000	1,000
Operation and Maintenance of Plant	1,146,000	1,146,000
Pupil Transportation	816,000	816,000
Central	60,000	60,000
Non-Instructional	772,000	349,000
Extracurricular Activities	429,000	237,000
Capital Outlay	330,000	330,000
Interest and Fiscal Charges	834,000	834,000
<i>Total Expenses</i>	<u>\$ 14,940,000</u>	<u>\$ 13,664,000</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 93 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 92 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$15,372,623 and expenditures of \$27,285,064. The net negative change of \$2,367,839 in General fund balance for the year indicates the District's inability to meet current costs. The net negative change of \$9,544,602 for all other funds was the result of completion of the school construction and renovation projects in Permanent Improvement fund.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2003, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$11,319,197, while actual expenditures were \$11,912,691. The District usually over-appropriates in case significant, unexpected expenditures arise during the fiscal year. Actual General Fund revenues were less than expenditures by \$525,522. During fiscal year 2003, interest revenue decreased significantly due to the declining economy. Open enrollment dollars were also recorded as gross receipts for incoming students and expenditures for outgoing students.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the District had \$20,216,801 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets see Note 8 to the basic financial statements.

Debt

At June 30, 2003, the District had \$15,184,064 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-five year period, with final maturity on December 1, 2027. The bonds are being retired through the Bond Retirement debt service fund.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

At June 30, 2003, the District had \$195,000 in a H.B. 264 Lighting Project. The loan was issued for a ten-year period, with final maturity on December 31, 2009. The loan is being retired through the Bond Retirement debt service fund. A transfer from the Permanent Improvement fund into the debt service fund provides the necessary funds.

For further information regarding the District's debt see the Note 14 to the basic financial statements.

Current Issues

The District was holding its own in the state of a declining economy and uncertainty in State funding. The School District is a small rural community of 6,500 people in Northwest Ohio. It has a number of small businesses with agriculture and residential values being an important part of the economy.

The district is currently operating in the first year of the state biennium budget. According to the 2003 Local District Report Card 52.1 percent of district revenue sources are from local funds, 45.2 percent from state funds and the remaining 2.7 percent is from federal funds. The total expenditure per pupil was calculated at \$7,408, which is a \$267 increase from the 2002 report card.

In 1995, the District passed a three-year emergency levy to generate \$825,000 and has renewed it three times. This levy provides a continuous source of funds for the financial operations and stability of the district.

In 2000, the District passed a 7.94 mil Bond Issue to build a new High School and renovate and add on to the Park and Crestwood Elementary schools.

The District was on the ballot three different times during calendar year 2003. We realized a decrease in revenue within the category of Personal Tangible Property Tax Receipts. We lost nearly 25 percent of \$5,000,000 in valuation within this category. The Lucas County Auditor notified us that the Ohio Department of Taxation made a coding error and sent our District funds within the same category, and that the request of repayment had been grant by the Ohio Department of Taxation back to the vendor. The Board of Education made cuts equivalent to approximately \$1,600,000 in fiscal year 2003-2004. This equates to approximately 40 full time positions. The District residents have passed a five-year 1.25 percent income tax on March 2, 2004.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
(Continued)**

The District also renewed a 3.3 mill permanent improvement levy in 2003. This generates approximately \$339,000 additional revenue to be used for maintaining, equipping and improving facilities of the school district. This issue has been renewed four times.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Treasurer, Swanton Local School District, 108 North Main Street, Swanton, Ohio 43558.

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2003**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 339,933
Materials and Supplies Inventory	10,158
Receivables:	
Accounts	1,617
Intergovernmental	25,000
Taxes	6,422,423
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	167,909
Capital Assets	
Non-Depreciable Capital Assets	451,991
Depreciable Capital Assets, net	19,764,810
<i>Total Assets</i>	27,183,841
Liabilities	
Accounts Payable	68,268
Accrued Wages and Benefits	1,119,804
Contracts Payable	158,597
Intergovernmental Payable	198,385
Matured Compensated Absences Payable	49,971
Deferred Revenue	5,421,546
Claims Payable	449,786
Long-Term Liabilities:	
Due Within One Year	888,719
Due in More Than One Year	18,232,568
<i>Total Liabilities</i>	26,587,644
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,750,264
Restricted for Debt Service	1,102,650
Restricted for Capital Outlay	652,113
Restricted for Other Purposes	520,235
Unrestricted	(4,429,065)
<i>Total Net Assets</i>	\$ 596,197

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	<u>Expenses</u>
Governmental Activities	
Instruction:	
Regular	\$ 5,998,043
Special	1,573,457
Vocational	111,775
Support Services:	
Pupils	759,013
Instructional Staff	484,658
Board of Education	111,797
Administration	1,143,892
Fiscal	369,533
Business	1,092
Operation and Maintenance of Plant	1,145,899
Pupil Transportation	815,872
Central	59,715
Operation of Non-Instructional Services	771,741
Extracurricular Activities	429,147
Capital Outlay	330,059
Interest and Fiscal Charges	833,905
<i>Total Governmental Activities</i>	<u><u>\$ 14,939,598</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 129,247	\$ 16,935	\$ -	\$ (5,851,861)
-	380,576	-	(1,192,881)
-	-	-	(111,775)
-	83,946	-	(675,067)
-	8,323	17,500	(458,835)
-	-	-	(111,797)
-	18,435	-	(1,125,457)
-	5,756	-	(363,777)
-	-	-	(1,092)
-	-	-	(1,145,899)
-	-	-	(815,872)
-	-	-	(59,715)
261,739	160,809	-	(349,193)
192,284	-	-	(236,863)
-	-	-	(330,059)
-	-	-	(833,905)
<u>\$ 583,270</u>	<u>\$ 674,780</u>	<u>\$ 17,500</u>	<u>(13,664,048)</u>

General Revenues

Taxes:

Property Taxes, Levied for General Purposes	4,773,214
Property Taxes, Levied for Capital Outlay	306,058
Property Taxes, Levied for Debt Service	1,126,914
Property Taxes, Levied for	43,743
Grants and Entitlements not Restricted to Specific Programs	5,165,487
Gifts and Donations	57,845
Investment Earnings	182,383
Miscellaneous	279,246
Refund of Prior Year Expenditures	36,473

Total General Revenues and Transfers 11,971,363

Change in Net Assets (1,692,685)

Net Assets Beginning of Year 2,288,882

Net Assets End of Year \$ 596,197

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003**

	General Fund	Bond Retirement Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ (1,506,367)	\$ 911,686
Materials and Supplies Inventory	-	-
Receivables:		
Accounts	1,617	-
Taxes	4,845,514	1,203,304
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	167,909	-
Noncurrent Assets:		
Interfund Receivable	25,000	-
<i>Total Assets</i>	\$ 3,533,673	\$ 2,114,990
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 63,660	\$ -
Accrued Wages and Benefits	1,063,813	-
Contracts Payable	-	-
Intergovernmental Payable	168,336	-
Matured Compensated Absences Payable	49,971	-
Deferred Revenue	4,387,207	1,069,627
Claims Payable	427,239	-
Noncurrent Liabilities:		
Interfund Payable	-	-
<i>Total Liabilities</i>	6,160,226	1,069,627
Fund Balances		
Reserved:		
Reserved for Encumbrances	246,591	-
Reserved for Advances	25,000	-
Reserved for Property Taxes	458,307	133,677
Reserved for Textbooks and Instructional Materials	167,909	-
Unreserved, Undesignated, Reported in:		
General Fund	(3,524,360)	-
Special Revenue Funds	-	-
Debt Service Funds	-	911,686
Capital Projects Funds	-	-
<i>Total Fund Balances</i>	(2,626,553)	1,045,363
<i>Total Liabilities and Fund Balances</i>	\$ 3,533,673	\$ 2,114,990

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 750,217	\$ 184,397	\$ 339,933
-	10,158	10,158
-	-	1,617
318,821	54,784	6,422,423
-	-	167,909
-	-	25,000
<u>\$ 1,069,038</u>	<u>\$ 249,339</u>	<u>\$ 6,967,040</u>
\$ -	\$ 4,608	\$ 68,268
-	55,991	1,119,804
158,597	-	158,597
-	5,049	173,385
-	-	49,971
288,575	39,492	5,784,901
-	22,547	449,786
-	25,000	25,000
<u>447,172</u>	<u>152,687</u>	<u>7,829,712</u>
320,566	5,510	572,667
-	-	25,000
30,246	15,292	637,522
-	-	167,909
-	-	(3,524,360)
-	64,173	64,173
-	-	911,686
271,054	11,677	282,731
<u>621,866</u>	<u>96,652</u>	<u>(862,672)</u>
<u>\$ 1,069,038</u>	<u>\$ 249,339</u>	<u>\$ 6,967,040</u>

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003**

Total Governmental Fund Balances		\$ (862,672)
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		20,216,801
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Property Taxes Receivable	<u>\$ 363,355</u>	363,355
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(113,803)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(17,379,064)	
Compensated Absences Payable	(1,416,875)	
Capital Leases Payable	<u>(211,545)</u>	
		<u>(19,007,484)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$ 596,197</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	General Fund
Revenues	
Property and Other Local Taxes	\$ 4,405,834
Intergovernmental	5,021,426
Interest	14,131
Increase (Decrease) in Fair Value of Investments	-
Tuition and Fees	95,341
Rent	6,409
Extracurricular Activities	-
Gifts and Donations	15,100
Customer Sales and Services	498
Miscellaneous	266,886
<i>Total Revenues</i>	9,825,625
Expenditures	
Current:	
Instruction:	
Regular	5,660,798
Special	1,317,908
Vocational	111,380
Support Services:	
Pupils	600,089
Instructional Staff	441,345
Board of Education	13,253
Administration	1,196,314
Fiscal	340,208
Business	1,092
Operation and Maintenance of Plant	1,174,380
Pupil Transportation	812,201
Central	59,715
Operation of Non-Instructional Services	35
Extracurricular Activities	321,851
Capital Outlay	322,941
Debt Service:	
Principal	111,396
Interest	-
<i>Total Expenditures</i>	12,484,906
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,659,281)
Other Financing Sources and (Uses)	
Transfers In	-
Refund of Prior Year Expenditures	36,473
Inception of Capital Lease	322,941
Proceeds from the Sale of Notes	-
Transfers Out	(67,972)
<i>Total Other Financing Sources and Uses</i>	291,442
<i>Net Change in Fund Balances</i>	(2,367,839)
<i>Fund Balance (Deficit) at Beginning of Year</i>	(258,714)
<i>Fund Balance (Deficit) at End of Year</i>	\$ (2,626,553)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Bond Retirement Fund	Permanent Improvement Fund	All Other Governmental Funds	Total Governmental Funds
\$ 1,132,750	\$ 289,056	\$ 58,934	\$ 5,886,574
138,637	32,388	665,401	5,857,852
-	108,743	440	123,314
-	59,069	-	59,069
-	-	27,497	122,838
-	-	-	6,409
-	-	192,284	192,284
-	-	42,745	57,845
-	-	261,241	261,739
-	-	18,365	285,251
<u>1,271,387</u>	<u>489,256</u>	<u>1,266,907</u>	<u>12,853,175</u>
-	-	108,257	5,769,055
-	-	243,825	1,561,733
-	-	-	111,380
-	-	85,946	686,035
-	-	67,486	508,831
-	-	-	13,253
-	-	12,515	1,208,829
15,264	3,951	5,500	364,923
-	-	-	1,092
-	-	-	1,174,380
-	-	20,464	832,665
-	-	-	59,715
-	-	679,490	679,525
-	-	75,035	396,886
-	9,913,539	-	10,236,480
630,987	2,000,000	-	2,742,383
713,024	58,836	-	771,860
<u>1,359,275</u>	<u>11,976,326</u>	<u>1,298,518</u>	<u>27,119,025</u>
<u>(87,888)</u>	<u>(11,487,070)</u>	<u>(31,611)</u>	<u>(14,265,850)</u>
92,062	-	67,972	160,034
-	-	-	36,473
-	-	-	322,941
-	2,000,000	-	2,000,000
-	(92,062)	(6,005)	(166,039)
<u>92,062</u>	<u>1,907,938</u>	<u>61,967</u>	<u>2,353,409</u>
4,174	(9,579,132)	30,356	(11,912,441)
1,041,189	10,200,998	66,296	11,049,769
<u>\$ 1,045,363</u>	<u>\$ 621,866</u>	<u>\$ 96,652</u>	<u>\$ (862,672)</u>

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement Activities
For the Fiscal Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ (11,912,441)

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	10,235,449	
Depreciation	<u>(342,620)</u>	
		9,892,829

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets	<u>(26,654)</u>	
		(26,654)

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

Property Taxes	363,355	
Intergovernmental	<u>(85)</u>	
		363,270

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of activities.

2,742,383

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt in the statement of activities.

Capital Appreciation Interest & Principal Interest Reclassified		(62,045)
---	--	----------

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities in the statement of net assets.

(322,941)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(34,407)	
Compensated Absences Payable	<u>(332,679)</u>	
		(367,086)

Other financing sources in governmental funds increase long-term liabilities in the statement of net assets

Proceeds from Notes	<u>(2,000,000)</u>	
		<u>(2,000,000)</u>

Change in Net Assets of Governmental Activities

\$ (1,692,685)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property and Other Local Taxes	\$ 5,360,000	\$ 4,563,325	\$ 4,615,412	\$ 52,087
Intergovernmental	5,075,000	4,925,108	5,031,629	106,521
Interest	30,000	14,000	14,131	131
Tuition and Fees	84,825	93,020	95,341	2,321
Rent	6,800	6,400	6,409	9
Gifts and Donations	25,150	15,100	15,100	-
Customer Sales and Services	410	396	498	102
Miscellaneous	601,750	300,000	273,893	(26,107)
<i>Total Revenues</i>	<u>11,183,935</u>	<u>9,917,349</u>	<u>10,052,413</u>	<u>135,064</u>
Expenditures				
Current:				
Instruction:				
Regular	4,352,651	4,697,540	5,264,795	(567,255)
Special	1,007,316	1,373,121	1,375,469	(2,348)
Vocational	102,017	171,881	114,063	57,818
Support Services:				
Pupils	415,957	620,997	567,190	53,807
Instructional Staff	411,602	758,487	743,609	14,878
Board of Education	8,654	33,403	13,253	20,150
Administration	737,156	1,163,068	1,144,681	18,387
Fiscal	249,232	331,213	337,347	(6,134)
Business	351	250	592	(342)
Operation and Maintenance of Plant	772,774	1,198,947	1,144,434	54,513
Pupil Transportation	251,629	648,190	759,445	(111,255)
Central	49,400	85,000	59,715	25,285
Extracurricular Activities	232,957	237,100	320,126	(83,026)
<i>Total Expenditures</i>	<u>8,591,696</u>	<u>11,319,197</u>	<u>11,844,719</u>	<u>(525,522)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,592,239</u>	<u>(1,401,848)</u>	<u>(1,792,306)</u>	<u>(390,458)</u>
Other Financing Sources and (Uses)				
Transfers In	-	520,113	-	(520,113)
Refund of Prior Year Expenditures	-	36,475	36,473	(2)
Transfers Out	(20,000)	-	(67,972)	67,972
<i>Total Other Financing Sources and Uses</i>	<u>(20,000)</u>	<u>556,588</u>	<u>(31,499)</u>	<u>(452,143)</u>
<i>Net Change in Fund Balances</i>	2,572,239	(845,260)	(1,823,805)	(842,601)
<i>Fund Balance (Deficit) at Beginning of Year</i>	60,333	60,333	60,333	-
Prior Year Encumbrances Appropriated	114,763	114,763	114,763	-
<i>Fund Balance (Deficit) at End of Year</i>	<u>2,747,335</u>	<u>(670,164)</u>	<u>(1,648,709)</u>	<u>(842,601)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
Fiduciary Fund
June 30, 2003**

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 24,883</u>
<i>Total Assets</i>	<u><u>\$ 24,883</u></u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	<u>\$ 24,883</u>
<i>Total Liabilities</i>	<u><u>\$ 24,883</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1887 and serves an area of approximately forty-two square miles. It is located in Fulton and Lucas Counties, and includes all of the Village of Swanton and portions of Fulton, Harding, Spencer, Swan Creek, and Swanton Townships. The School District is the 351st largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 76 classified employees, 118 certified teaching personnel, and six administrative employees who provide services to 1,537 students and other community members. The School District currently operates four instructional buildings and an administration building.

Reporting Entity

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

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

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

SAINT RICHARDS CATHOLIC SCHOOL

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

The School District is associated with five jointly governed organizations, two insurance pools, and a related organization. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Joint Recreation Board, the Northwestern Ohio Educational Research Council, Inc., Penta County Career Center, Northern Buckeye Education Council Workers' Compensation Group Rating Plan, Ohio Mid-Eastern Regional Education Service Agency Health Benefits Program (OME-RESA), and the Swanton Public Library. Information about these organizations is presented in Notes 17, 18, and 19 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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

Fund Financial Statements

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

assets and liabilities is reported as fund balance. The General Fund, the Bond Retirement Fund and the Permanent Improvement Capital Project Fund are the School District's major governmental funds:

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

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

Permanent Improvement Capital Projects Fund - The permanent improvement fund is 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).

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Fund Financial Statements

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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.

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.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follows.

1. Prior to fiscal year 2003, the Treasurer would submit an annual tax budget for the following fiscal year to the School Board by January 15, for consideration and passage. The adopted budget was submitted to the County Auditor, as Secretary of the Council Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following year. Beginning in year 2003, this requirement was waived by the County Budget Commission.
2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

Board adopted appropriations 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 appropriations at the legal level of control.

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which reallocate, increased or decreased the original appropriated amounts.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2003, the School District's investments were limited to repurchase agreements, non-negotiable certificates of deposit, and Fixed Income Government Bonds. Repurchase agreements and non-negotiable certificates of deposit are reported at cost and the fixed income bonds were reported at fair market value.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2003 was \$14,131, which included \$2,544 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased, except for the food service fund. Inventories of the food service fund consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for textbooks and instructional materials.

I. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

K. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School district accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. These compensated absences are measured using rates in effect at June 30, 2003.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

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 property taxes, advances, textbooks, and encumbrances.

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

O. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences that had not matured during fiscal year 2002.

B. Restatement of Fund Balance

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Bond Retirement	Permanent Improvement	Nonmajor Government Funds	Total Government Activities
Fund Balance June 30, 2002	\$ (265,123)	\$ 1,041,189	\$ 10,200,998	\$ 121,028	\$ 11,098,092
Fund Classifications	-	-	-	(67,414)	(67,414)
Interpretation 6 Adjustments:					
Compensated Absences	6,409	-	-	12,682	19,091
Adjusted Fund Balance	<u>\$ (258,714)</u>	<u>\$ 1,041,189</u>	<u>\$ 10,200,998</u>	<u>\$ 66,296</u>	<u>11,049,769</u>
GASB 34 Adjustments:					
Intergovernmental					85
Capital Assets					10,350,626
Long-Term Liabilities					<u>(19,111,598)</u>
Governmental Activities Net Assets at June 30, 2002					<u><u>\$ 2,288,882</u></u>

**SWANTON LOCAL SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2003
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance Major Governmental Fund	
	General
GAAP Basis	\$ (2,367,839)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2002, Received In Cash FY 2003	686,712
Accrued FY 2003, Not Yet Received in Cash	(782,865)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,145,522)
Accrued FY 2003, Not Yet Paid in Cash	2,095,960
Encumbrances Outstanding at Year End (Budget Basis)	(310,251)
Budget Basis	\$ (1,823,805)

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At fiscal year end, the District had \$1,646 in undeposited cash on hand, which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

At fiscal year end, the carrying amount of the District's deposits was \$140,079 and the bank balance was \$221,093. Of the bank balance, \$130,469 was covered by federal depository insurance and \$90,624 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. At June 30, 2003, repurchase agreements, category 3 investments, had a carrying amount and fair value of \$391,000.

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 532,725	\$ -
Cash on Hand	(1,646)	-
Repurchase Agreements	(391,000)	391,000
GASB Statement No. 3	\$ 140,079	\$ 391,000

6. PROPERTY TAXES

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

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by the State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year or 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Fulton and Lucas Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$458,307 in the general fund, \$133,677 in the debt service fund, \$30,246 in the capital projects fund and \$15,292 in the other governmental funds. The amount available as an advance at June 30, 2002 was \$667,885 in the general fund, \$150,393 in the debt service fund, \$42,422 in the capital projects fund and \$6,672 in the special revenue fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 126,669,100	72.0%	\$ 134,127,950	74.0%
Industrial/Commercial	20,178,310	11.0%	23,410,880	13.0%
Public Utility	9,915,940	11.0%	8,321,970	5.0%
Tangible Personal	20,178,975	6.0%	15,069,001	8.0%
Total Assessed Value	\$ 176,942,325	100.0%	\$ 180,929,801	100.0%
Tax rate per \$1,000 of assessed valuation	\$ 70.31		\$ 70.31	

7. RECEIVABLES

Receivables at June 30, 2003, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of receivables on the Statement of Net Assets follows:

	Amount
Governmental Activities:	
Taxes	\$ 6,422,423
Intergovernmental	25,000
Total Intergovernmental Receivables	\$ 6,447,423

**SWANTON LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities	Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03
Nondepreciable Capital Assets:				
Land	\$ 451,991	\$ -	\$ -	\$ 451,991
<i>Total Nondepreciable Capital Assets</i>	<u>451,991</u>	<u>-</u>	<u>-</u>	<u>451,991</u>
Depreciable Capital Assets:				
Land Improvements	272,412	-	-	272,412
Buildings and Building Improvement	10,234,670	9,102,908	-	19,337,578
Furniture, Fixtures, and Equipment	1,024,496	1,026,437	-	2,050,933
Vehicles	1,263,760	106,104	91,986	1,277,878
Books	907,151	-	-	907,151
<i>Totals</i>	<u>13,702,489</u>	<u>10,235,449</u>	<u>91,986</u>	<u>23,845,952</u>
Less Accumulated Depreciation				
Land Improvements	180,730	1,364		182,094
Buildings and Building Improvement	2,281,857	153,263		2,435,120
Furniture, Fixtures, and Equipment	202,986	61,107		264,093
Vehicles	802,245	62,257	65,332	799,170
Books	336,036	64,629		400,665
<i>Total Accumulated Depreciation</i>	<u>3,803,854</u>	<u>342,620</u>	<u>65,332</u>	<u>4,081,142</u>
Depreciable Capital Assets, Net	<u>9,898,635</u>	<u>9,892,829</u>	<u>26,654</u>	<u>19,764,810</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 10,350,626</u>	<u>\$ 9,892,829</u>	<u>\$ 26,654</u>	<u>\$ 20,216,801</u>

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 104,028
Support Services:	
Instructional Staff	43,306
Administration	1,550
Operation and Maintenance of Plant	1,889
Pupil Transportation	60,707
Non-Instruction	2,005
Extracurricular	428
Capital Outlay	128,707
<i>Total Depreciation Expense</i>	<u>\$ 342,620</u>

The restated balance of capital asset as of June 30, 2002 was increased by \$1, 075,537 from \$ 9,275,089 to \$ 10,350,626 due to change in capitalization policy from \$500 to \$ 5000 which decreased the balance by the amount of \$ 2,544,539 and correction of an error in the prior period which increased the amount by \$3,620,076.

9. RESTRICTED ASSETS

The \$167,909 amount which is reflected on the statement of net assets and balance sheet is restricted for textbook and instructional materials.

10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following coverages:

Coverages provided by Nationwide/Wausau Insurance Companies:

General Liability	
Per Occurrence	\$ 2,000,000
Total per Year	5,000,000
Fire Damage (per occurrence)	100,000
Medical Expense (per person)	5,000
Umbrella Liability	2,000,000

**SWANTON LOCAL SCHOOL DISTRICT
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Coverages provided by Grange Insurance Company:	
Vehicle Liability (combined single limits each accident)	\$ 1,000,000
Auto Medical Payments	5,000
Uninsured Motorist (combined single limits each accident)	1,000,000
Coverages provided by CNA Insurance Company:	
Building and Contents-replacement cost (\$1,000 deductible)	\$23,661,773
Boiler and Machinery (\$5,000 deductible)	various
Inland Marine Coverage (\$100 deductible)	
Audio/Visual Equipment	94,361
Musical Equipment	139,032
Athletic Equipment	50,000
Electronic Data Processing Equipment	600,000
Crime Coverage (no deductible)	
Inside Premises	7,500
Outside Premises	7,500

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

For fiscal year 2003, the School District participated in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays the group rate.

Medical, prescription and dental insurance is offered to employees and administered by a claims processing pool. Starting in June 2002 the School District became a member of the OME-RESA Health Benefits Program a claims servicing pool, in which monthly premiums are paid to the fiscal agent who in turns pays the claims on the School District's behalf. The claims liability of \$449,786 reported at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred by not reported claims be reported. The following table reflects changes in claims activity for fiscal year 2002 and 2003:

Year	Claims Payable		Claims Payments	Claims Payable	
	Balance at Beginning of Year	Current Year Claims		Balance at End of Year	
2002	\$ -	\$ 34,202	\$ 16,549	\$ 17,653	
2003	17,653	1,596,944	1,164,811	449,786	

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Health Care Benefits

The School District offers medical, life and dental insurance to most employees. These insurance benefits are partially self-funded through OME-RESA Health Benefits Plan.

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

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**Notes to the Basic Financial Statements
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balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$887,773, \$898,199, and \$538,365, respectively; 86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$128,524.

B. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$286,651, \$248,129, and \$138,173,

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(Continued)**

respectively; 53 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$134,580.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (RC), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, healthcare benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. For fiscal year ended June 30, 2002 4.5 percent of covered payroll was allocated to the fund. The balance in the Health Care Stabilization Fund was \$2.8 billion on June 30, 2003.

For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000. There were 108,294 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2003, the allocation rate is 5.83 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2003, the minimum pay has been established as

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**Notes to the Basic Financial Statements
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\$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$303.6 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be

determined by multiplying actual employer contributions times .4164, then adding the surcharge due as of June 30, 2003, as certified to your district by SERS.

13. OTHER 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 year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. At June 30, 2003, a liability of \$49,971 has been provided in the general fund and for earned, but unused vacation leave that will be paid to the employees.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rate basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum payout of 58.75 days for all employees. At June 30, 2003, a current liability of \$16,062 has been provided in the general fund for earned, but unused sick leave that will be paid to the employees.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

The District has recorded an estimated liability of \$1,416,875 for severance pay and sick leave payable at June 30, 2003, in accordance with GASB No. 16, "Accounting for Compensated Absences". The amount has been recorded in the Government Wide Basic Financial Statements since the liability will not require the use of current expendable available financial resources.

B. Early Retirement Incentive

The School District's Board of Education has approved an Early Retirement Incentive program for SERS employees. Participation is open to those employees who are at least fifty years old, qualify for retirement with the years purchased by the Board, and agree to retire within ninety days after notification that credit has been purchased. The credit cannot exceed the lesser of two years or one-fifth of each member's total service. Employees wishing to participate in the plan must indicate their desire by submitting an application to the Treasurer no later than January 15. The Board has the option of paying the liability in its entirety or in installments. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in June 2003.

The Board has not limited the number of employees participating in the plan in any one year. All payments are made through the payroll process to the credit of the retired employee. Early retirement incentive payments have been reclassified and are reflected as debt service expenditures in the general-purpose financial statements for governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. There were early retirement incentive payments made during fiscal year 2003, and there is no outstanding liability as of June 30, 2003.

D. Special Termination Benefits

For STRS employees, a cash incentive of \$15,000 is paid to all members who elect to retire under normal circumstances in the first year they are eligible. The employee has the option of participating with a Board approved annuity company for deferring all or a portion of the incentive payment for tax purposes. The employee may choose to defer the payment until January of the following calendar year. To qualify, the employee must have at least fifteen years of service with the School District and must meet all eligibility requirements for retirement under STRS. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in September 2003. There is no outstanding liability as of June 30, 2003.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Interest Rate	Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03	Due within One Year
1998 Fifth Third Loan	5.50%	\$ 55,978	\$ -	\$ 55,978	\$ -	\$ -
2002 Energy Conservation Loan	4.60% - 3.00 -	220,000	-	25,000	195,000	30,000
2001 Series Bond Issue	5.25%	15,672,028	62,036	550,000	15,184,064	510,000
2001B School Improvement Notes	2.95%	2,000,000	-	2,000,000	-	-
2002 School Improvement Notes	2.23%	-	2,000,000	-	2,000,000	-
Capital Lease	2.90%	-	322,941	111,396	211,545	100,462
Compensated Absences Payable		1,084,196	1,416,875	1,084,196	1,416,875	146,495
Intergovernmental Payable		79,396	113,803	79,396	113,803	101,762
<i>Total General Long-Term Obligations</i>		<u>\$ 19,111,598</u>	<u>\$ 3,915,655</u>	<u>\$ 3,905,966</u>	<u>\$ 19,121,287</u>	<u>\$ 888,719</u>

2001 Series Bond Issue – On June 1, 2001, the School District issued \$15,999,992 in voted general obligation bonds for buildings and permanent improvements. The bonds were issued for a twenty-five year period with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement debt service fund.

2001B School Improvement Notes – On September 19, 2001, the School District issued \$2,000,000 in School Improvement Notes for the construction of a new high school and renovation to other school facilities. The notes matured on September 18, 2002, and were reissued, in the amount of \$2,000,000 with a maturity date of September 17, 2003.

1998 Tax Anticipation Notes - On June 16, 1998, the School District entered into a loan agreement with Fifth Third Bank to finance the construction of new bleachers for the football stadium. The loan, in the amount of \$279,886, was payable annually over a five year period, with the final maturity on December 1, 2002. The loan is being repaid through the Bond Retirement debt service fund.

1999 Energy Conservation Improvement Bonds - On January 27, 1999, the School District obtained a loan, in the amount of \$293,634, to provide energy conservation measures for the School District. The loan was obtained under the authority of Ohio Revised Code §§ 133.06(G) and 3313.372 for a ten-year period, with final maturity on December 1, 2008. The loan is being repaid through the Bond Retirement debt service fund.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

The School District reissued the 2001B School Improvement Note for \$2,000,000. This note is the 2002 School Improvement Note.

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

The School District's voted debt margin was \$16,283,682 with an unvoted debt margin of \$180,930 at June 30, 2003.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, were as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2004	\$ 540,000	\$ 701,703	\$ 1,241,703
2005	625,000	683,747	1,308,747
2006	690,000	661,660	1,351,660
2007	775,000	636,123	1,411,123
2008	230,000	606,446	836,446
2009-2013	2,090,384	3,137,275	5,227,659
2014-2018	3,118,680	2,751,090	5,869,770
2019-2023	4,380,000	1,483,125	5,863,125
2024-2026	2,930,000	302,925	3,232,925
Total	<u>\$15,379,064</u>	<u>\$10,964,094</u>	<u>\$26,343,158</u>

15. CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for the acquisition of computers.

The terms of the agreement provides an option to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board (FASB), "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Fixed assets acquired by lease have been capitalized in amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded. Principal payments in the 2003 fiscal year totaled \$111,396. This amount is reflected as debt service principal retirement in the General Fund.

The following is an analysis of the equipment under capital lease as of June 30, 2003:

Government wide capital assets:	
Computers, Carrying Value	<u><u>\$ 322,941</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

Year Ending June 30,	Computers
2004	\$ 111,396
2005	111,396
Total Future Minimum Lease Payments	222,792
Less: Amount Representing Interest	(11,247)
Present Value of Future Minimum Lease Payments	\$ 211,545

The School District does not have a capitalized lease obligation after fiscal year 2005.

16. SET ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Cash Balance June 30, 2002 (as corrected)	\$ 120,701	\$ -	\$ 70,229
Current Year Set Aside Requirement	196,790	196,790	-
Current Year Offsets	-	(196,790)	-
Qualifying Expenditures	<u>(149,582)</u>	<u>-</u>	<u>(70,229)</u>
Total	<u>\$ 167,909</u>	<u>\$ -</u>	<u>\$ -</u>
Cash Balance Carried Forward To FY 2004			<u>\$ 167,909</u>
Total Restricted Assets			<u>\$ 167,909</u>

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

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, Henry, Lucas, Williams, and Wood Counties. The organization was formed for applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The NWOCA Assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member school districts are located and the representative from the member school district serving as fiscal agent for NWOCA. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio law as a regional

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

council of governments pursuant to a written agreement entered into by its member school districts and bylaws adopted by the representatives of the member school districts. Total disbursements made by the District to NBEC during fiscal year ended June 30, 2003 were \$144,327. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

D. Joint Recreation Board

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

E. Penta Career Center

Penta Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the sixteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Penta Career Center,

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Carrie J. Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551.

18. INSURANCE POOL

Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool.

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

Ohio Mid-Eastern Regional Education Service Agency Health Benefits Program

The School District participates in Ohio Mid-Eastern Regional Education Service Agency Health Benefits Program (the Pool), a claims processing pool comprised of the fifty members. Each participant is a member of the assembly. The Pools business affairs are conducted by a nine-member Board of Directors elected from the OME-RESA assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Pool acts as a claims servicing agent.

19. RELATED ORGANIZATION

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

20. 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.

21. INTERFUND TRANSFERS

During the year ended June 30, 2003, the General Fund transferred \$67,972 to Other Non-major Governmental Funds and \$ 6,005 was transferred from Non major Governmental fund to Agency fund. In the fund financial statements, total transfers out of \$166,039 are greater than the total transfers in of \$160,034 due to the transfer out of \$6,005 to the Agency Fund.

22. 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, 2003.

B. Litigation

Currently there is a pending lawsuit in which the School District is named as defendant. Management and legal counsel opinion is that the outcome will be favorable therefore no liability has been accrued.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

23. FINANCIAL CONDITION

On October 6, 2003 the District was placed into fiscal caution by the Ohio Department of Education as allowed under Ohio Revised Code § 3316.031 (B)(3). The District's General Fund had a deficit cash balance of (\$1,338,458) as of June 30, 2003. In FY 2004 the Board of Education made \$1,600,000 in personnel cuts and other operating expenses. The District residents passed a five-year 1.25 percent income tax on the March 2, 2004. This income tax is estimated to generate \$2,200,000 per year over the life of the levy. The District will start receiving the income tax revenue in FY 2005. The District has to prepare a fiscal recovery plan that will be submitted to the Ohio Department of Education.

The Auditor of State is currently doing a performance audit to evaluate ways to improve operations of the district. Also, the Auditor of State is in the process of certifying the District's five-year forecast.

24. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2003, the General fund had a deficit fund balance of \$ 2,199,314, of which \$ 1,338,458 was an actual cash deficit. The Food Service, Auxiliary Services, Disadvantaged Pupil Impact Aid Fund, Title I, and Title II-A had deficit fund balances of \$55,353, \$673, \$66, \$14,639 and \$251 respectively. These were created by the application of generally accepted accounting principles.

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

B. Compliance

The School District did not adhere to budgetary compliance requirements, as follows:

Transfers – Money was transfer from Capital Project Permanent Improvement fund to General without petitioning the Court of Common plea and obtaining approval of tax commissioner.

Negative Balances – The following funds had negative cash balances through out the year and were not corrected in timely manner pertaining to the following funds: Food Service, Uniform School Supplies, Athletic, Ohio Reads, Title 1, and

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Miscellaneous Grant funds. The General fund had a negative cash balance at June 30, 2003.

Filing Requirements – The Amended Certificate of Estimated Resources and Annual Appropriations Measure were not filed by the required deadline. Also, appropriations have exceeded the total available resources, by significant amounts, for many funds, and the appropriations in the budgetary reports do not agree with appropriations approved by the Board.

Expenditures Exceeding Appropriations – Expenditures exceeded appropriations in the following funds: General, Recreation, Holden Jennings Grant, Athletic, EMIS, School Net Professional Development, Miscellaneous State Grant, Miscellaneous Federal Grant, Bond Retirement, Permanent Improvement and Food Service funds.

5-Year Forecast – The textbook and instructional material reserve was not shown, and the actual ending cash balance was overstated and non General Fund debt was shown on the five-year forecast.

Textbook and Material Reserve – The textbook and instructional material reserve was not established as a special cost center within the general fund.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Swanton Local School District, Fulton County, (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 22, 2004, in which we noted the District is experiencing certain negative financial conditions, adopted Governmental Accounting Standards Board Statement 34 and changed in its policy regarding fixed asset capitalization. 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 School 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 2003-001 through 2003-2006. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District's in a separate letter dated March 22, 2004

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-007 through 2003-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we consider item 2003 – 007 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 22, 2004.

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.



Betty Montgomery
Auditor of State

March 22, 2004

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Findings
June 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Finding for Adjustment

Ohio Revised Code § 5705.14 addresses the transfer of funds and states that no transfer shall be made from one fund of a subdivision to any other fund unless the transfer meets one of the exceptions contained in that section. The exceptions are stated in §§ 5705.14(A) through (H). In addition, certain transfers not authorized pursuant to § 5705.14 may nonetheless be accomplished by the more rigorous transfer procedures set out in Ohio Revised Code §§ 5705.15 and 5705.16. § 5705.15 states that in addition to the transfers authorized in § 5705.14, the taxing authority of any political subdivision may, in the manner provided in this section and § 5705.16, transfer from one fund to another any public funds under its supervision except the proceeds or balances of loans, bond issues, special levies for the payment of loans or bond issues, the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and the proceeds or balances of any license fees imposed by law for a specified purpose. Ohio Revised Code § 5705.16 provides first that a resolution declaring the necessity of a transfer of funds be passed by a majority of the taxing authority of the political subdivision. The taxing authority must then prepare a petition addressed to the Court of Common Pleas of the county where the funds are held, and forward a copy of the petition to the tax commissioner for his examination and approval.

The School District transferred \$148,775.16 from its Capital Projects Permanent Improvement Fund (003) to the General Fund (001) without petitioning the Court of Common Pleas and obtaining approval of the tax commissioner.

This required an adjustment in 2003 between the Capital Projects Permanent Improvement and General funds. The Treasurer has made the adjustment and the adjustment is reflected in the financial statements.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The General Fund had a negative cash fund balance at June 30, 2003 in the amount of (\$1,338,458).

FINDING NUMBER 2003-002
(Continued)

The following funds carried negative cash fund balances during 2003 and were not corrected in a timely manner:

- Food Service Fund (006)
- Uniform Supplies Fund (009)
- Athletic Funds (300)
- Ohio Reads Fund (459)
- Title 1 Fund (572)
- Miscellaneous Grant Funds (499)

FINDING NUMBER 2003-003

Noncompliance Citation

Chapter 5705 of the Ohio Revised Code outlines the budgetary process to be followed by the School District, as follows:

Ohio Revised Code §5705.36 requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. However, reserve balance accounts established pursuant to Ohio Revised Code § 5705.13 are to be excluded from the amount of unencumbered balances. Ohio Revised Code §5705.38 requires a Board of Education (the Board) to pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed (as permitted by law), the Board may pass a temporary measure for meeting the ordinary expense of the school district until it passes an annual appropriation measure. Ohio Revised Code §5705.39 requires that total appropriations from each fund should not exceed the total estimated revenue, and no appropriation measure is to become effective until the county auditor files a certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate. Ohio Revised Code §5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

**FINDING NUMBER 2003-003
 (Continued)**

The School District did not follow the requirements stated above, as follows:

- The certification of the June 30, 2002 balances was not sent to the County Auditor at the time required resulting in the original Amended Certificate of Estimated Resources dated December 9, 2002. The Reserve for Budget Stabilization was improperly included as part of the balances.
- Permanent appropriations were passed on October 21, 2002, prior to obtaining an amended certificate from the County Auditor. Furthermore, we were unable to obtain a temporary appropriations resolution which should have been passed if permanent appropriations were not available.
- No certificate was available from the County Auditor indicating that appropriations were within the estimated resources. Appropriations exceeded total available resources in the following funds:

<u>Fund</u>	<u>Amount Appropriations Exceeded Total Available Resources</u>
General Fund (001)	\$1,118,690
Capital Projects Permanent Improvement (003)	4,143,620
Auxiliary Services (401)	1,321
Net Connectivity (451)	8,041
Ohio Reads (459)	27,600
Eisenhower Grant (514)	10,600
Drug Free Grant (584)	7,575
School Net (450)	25,000
Uniform Supplies (009)	2,840

- Appropriations, as set forth in the budgetary reports, do not agree with appropriations approved by the Board.

The budgetary process is essential to management and the Board for planning, control, and evaluation of the financial condition of the School District. Lack of compliance with budgetary requirements and monitoring of budgetary information have resulted in deficit conditions occurring which have impacted operations and overall educational environment of the School District.

**FINDING NUMBER 2003-003
(Continued)**

In order to comply with the budgetary requirements of the Ohio Revised Code, and to understand the purpose of the budgetary process, we recommend the following:

- The Board is to certify the total amount from all sources which is available for expenditures from each fund along with any unencumbered balances that existed at the end of the preceding year on or around the required date (July 1st), and exclude any reserve accounts that should not be included in the unencumbered balances.
- The Board pass its annual appropriation measure by the first day of October, and if its annual appropriation measure is delayed (as permitted by law), the Board pass a temporary measure for meeting the ordinary expense of the school district until it passes an annual appropriation measure.
- The Board should ensure that the school district has obtained the county auditor certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate.
- The Board approves appropriation amendments and supplementals in accordance with the same provisions of law as used in making the original appropriation, and to take appropriate action to ensure that expenditures do not exceed appropriations. The Board should require presentation of budgetary information, at the legal level of control for all funds, as established by the Board, for their review. Also, members of the finance and/or audit committee should review and compare budgetary information to source documents to ensure the information provided is accurate.
- The management of the school district should review the budgetary requirements as outlined by the Ohio Revised Code. The requirements can be reviewed at the Auditor of State website www.auditor.state.oh.us where the Ohio Compliance Supplement and Auditor of State Technical Bulletins are available detailing various budgetary issues and procedures that affect school districts. If further guidance on the budgetary process and requirements are needed, management of the School District should consult with the County Budget Commission. Other sources of information could come from area local school treasurers, state department of education and/or statewide boards or associations.

FINDING NUMBER 2003-004

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures plus encumbrances exceeded appropriations by these amounts in the following funds:

<u>Fund</u>	<u>Amount Expenditures Exceeded Appropriations</u>
General Fund (001)	\$1,372,520
Recreation Fund (013)	8,291
Holden Jennings Grant Fund (019)	6,525
Athletic (300)	21,616
EMIS (432)	2,525
School Net Professional Development (452)	275
Miscellaneous State Grant Fund (499)	6,507
Miscellaneous Federal Grant Fund (599)	5,701
Bond Retirement Fund (002)	480,260
Permanent Improvement Fund (003)	5,821,605
Food Service (006)	88,008

The minutes did not show specific board action when amending or supplementing appropriations to individual funds. Also, no supplemental appropriations were passed on to the county auditor for certification. The amounts represented above are based on a comparison of the original appropriations plus carryover funds against actual expenditures and year-end encumbrances.

We recommend that whenever there are amendments or supplementals to funds the minutes should reflect these changes as approved by the Board.

FINDING NUMBER 2003-005

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

FINDING NUMBER 2003-005
(Continued)

The following deficiencies were noted during testing of the FY 2003 forecast:

- Debt activity not related to the general fund is shown on the forecast.
- The textbook and instructional materials reserves were not shown in the amount of \$167,909.
- The FY 2002 reported ending cash balance on the forecast was overstated by \$89,416 to the FY 2002 actual ending fund cash balance.
- No evidence could be provided or indicated in the minutes that the May 2003 revised forecast for the FY 2003 forecast was approved by the Board. The May 2003 revised forecast completed before the year end required significant revisions as revenues and expenditures deviate from the projections by 5 percent.

The June 30, 2003 estimated unreserved fund balance, as reported on the forecast, is \$11,476. The accumulated effect, as noted above, of not showing the amount of textbook reserves and the incorrect June 2002 ending fund cash balance resulted in a reduction to the June 30, 2003 forecasted unreserved fund balance in the amount of \$257,325 to a new deficit balance of (\$245,849).

These conditions could result in (1) school district management and/or the Ohio Department of Education drawing erroneous conclusions about the school district's true financial condition, and/or (2) delay of implementation of strategic measures aimed at deficit reduction. To ensure that 5-year forecast requirements are met, we recommend the following:

- School District management review Auditor of State Bulletin 98-015 as to the requirements of the forecast.
- The Board review and compare actual information reported to supporting documents and reports.
- The Board review 5-year forecasts submitted to ODE to ensure that historical data is accurate and determine whether revisions are needed.

FINDING NUMBER 2003-006

Ohio Revised Code § 3315.17(A) requires that a local school district establish a textbook and materials reserve which is to be accounted for in the district's general fund using any reasonable accounting method. The reserve must be calculated and set aside annually. If the set-aside amount is not spent in one year it is carried forward to the next year. Money in the reserve shall be used for textbooks, instructional software, and instructional materials, supplies, and equipment; however, the statute allows a district to spend the reserve for things other than textbooks if certain conditions in the statute are satisfied.

The School District has not established the required reserve in its general fund, and the amount of the required set aside as of June 30, 2003 is \$167,909. School District management indicated that a major textbook purchase was made in 1999. This resulted in fewer expenses for upgrading textbooks and instructional materials in subsequent years and is the reason for such a large reserve amount.

We recommend the school district establish a textbook and materials reserve to be accounted for in the general fund or review Ohio Revised Code §3315.17(D) which allows for these funds to be used for expenses other than textbooks if certain criteria are met and approvals obtained.

FINDING NUMBER 2003-007

Material Weakness

Minute Records

The School District's minute records do not identify all of the required budgetary actions of the Board (i.e., budgetary amendments, interfund transfers). The Board formally adopts its minute agendas that refer to and include exhibits; however, the agendas are not a part of the minute record.

This condition could result in permanent, official actions of the Board being erroneously lost and/or destroyed. This could have a detrimental effect on the school district if adverse actions are taken against the school district and, the historical reference of those actions could not be determined.

We recommend the Board memorialize its official actions by reflecting all of their voted actions in the minute record.

FINDING NUMBER 2003-008

Reportable Condition

Capital Assets

Testing of the school district's capital assets records disclosed the following deficiencies:

- The capitalization threshold was increased from \$500 to \$5,000. No documentation was provided to identify the effect of the change on the capital assets beginning balances.
- Construction In Progress on the school construction and renovation projects, books and football stadium bleachers purchased in prior fiscal years were included as additions in FY 2003.
- The fiber optic lines and equipment owned by the Northwest Ohio Computer Association (NWOCA) was included as part of capital assets.
- Land was included as part of the depreciable capital assets and not shown separately as a non-depreciable asset. Also, not all of the parcels of land on the list provided by the Treasurer were included on the fixed asset ledgers.
- Furniture, fixtures, and equipment acquisitions were included in the Building and Improvements category.
- Review of the depreciation schedule showed that not all assets were being depreciated and that the useful life of the asset is not consistent with the asset type.
- Although the district has a Fixed Asset and Management Policy, there are no written procedures for the proper processing of fixed asset acquisitions, deletions, transfers, categorization and identification tagging of assets. Useful life in the policy does not agree with the Useful life within the Equipment Inventory System (EIS).
- There is no specific tagging system. On the brief asset listing the new high school building along with most of the furniture and equipment that was bought for the building is included under one tag number.
- Asset disposition sheets were not utilized consistently and organized in a manner to provide adequate documentation for the testing of deletions and not approved by the Board.

**FINDING NUMBER 2003-008
(Continued)**

- The District has contracted with an outside appraisal firm to perform a review of the Districts fixed assets.

Failure to employ adequate controls over the processing of capital asset, additions, deletions, transfers, and balances could result in misappropriation of assets and misrepresentation of the district's financial statements. To maintain adequate safeguards over fixed assets, and to reduce the risk of misstatement, we recommend the Treasurer and Board of Education review the current capital Asset Policy and asset records and implement it accordingly for the following:

- The Treasurer should maintain adequate documentation and reports for changes in capital assets including changes in capitalization threshold, acquisitions, deletions, depreciation and any other corrections. The documentation should be reviewed for accuracy and completeness.
- The Treasurer should post all known additions, deletions, categorical changes, and other corrections identified in audit and reconcile the EIS system balances to the Fixed Asset Ledger provided by the outside appraisal firm.
- Implement procedures to provide adequate support for dispositions requiring consistent utilization of disposition forms to be attached to summary listings of dispositions by fund type and category and approved by the Board.
- Review the district's revenue ledger for sales of assets to provide assurance that those assets are included in the dispositions.
- Review fixed assets for depreciable assets, correct depreciation, including useful life to develop consistent treatment of depreciation on assets.
- Develop and document specific procedures to be performed to accommodate the proper processing of capital asset acquisitions, deletions, transfers, and identification tagging of assets.

FINDING NUMBER 2003-009

Reportable Condition

Investment Ledger

During testing of the investment activities of the school district we have identified the following deficiencies:

- The bond proceeds for the High School project were invested through Fifth Third Bank, who made the investment decisions for the school district. The school district received a monthly statement which showed the investment activity made by Fifth Third Bank. These statements showed the securities purchased/sold, accrued interest purchased/earned and capital gains/loss on the sale of the security. No record of this information was maintained in an investment ledger. Although interest revenues and accrued interest sold were posted to the ledgers, accrued interest purchased and gains/losses were not taken into consideration and posted to the ledgers.
- An investment ledger was maintained. However, interest rates, amounts due at maturity, and the cumulative totals of amounts invested and interest are not included in the ledger. Also, the investments in Fifth Third Bank which contained the largest and most complex investment activities of the district were not included in the ledger.
- The investment amount reported on the monthly reconciliations did not agree to the actual amount of investment.

Failure to post all of the transactions related to investment activity performed by the Fifth Third Bank as indicated above resulted in an adjustment decreasing the Capital Projects Permanent Improvement Fund balance by the amount of \$261,225. This amount reflects the net gain/losses on the sale of the securities and interest purchased not posted to the financial records. After this adjustment the bank reconciled to the book balance as of June 30, 2003. To correct the above conditions we recommend:

- The investment ledger should include all investments and investment activities containing, but not limited to investment type, investment date, investment amount, investment number, depository institution, maturity date, interest rate, amount due at maturity, interest earned, and cumulative total of amounts invested and interest earned and the ledger should be supported with maintenance of a complete file of all investment source documents and related activities.

**FINDING NUMBER 2003-009
(Continued)**

- All investment activity should be posted to the investment ledger.
- The investment ledger total investments should reconcile to the investment amount reported on the monthly reconciliations.

FINDING NUMBER 2003-010

Reportable Condition

Student Activities

Student activity funds consist of programs in which students participate and manage. The successful operation of such programs is dependent upon the formulation of sound policy and effective guidelines. Testing of ten student activity fundraising activities disclosed that Sales Project Potential Forms were not used for six of the activities tested and one other activity the Sales Project Potential Form tested was incomplete.

To strengthen internal controls, provide management with a profit measurement tool, and to prevent errors, irregularities, or misappropriation of assets from occurring and being undetected, we recommend the following:

- Student activity advisors carefully review the School Districts' Student Activity Handbook and related Board policies addressing the proper accounting and required documentation for student activity funds. An acknowledgment, noting review and understanding of such policies from all advisors should be obtained and kept on file each year. This could be turned in with the student activity budgets submitted by advisors before each fiscal year.
- Instructions for proper completion of the Sales Project Potential Form should be included on the form.
- Sales Project Potential forms should be completed for all student activities, inclusive of yearbook sales/activities. The top portion should be completed, reviewed, and approved prior to commencing the fundraising activity. The form should be updated with quantity of goods ordered/sold, cost per unit, and proposed sales price. Upon completion of the activity, the bottom portion of the form should be completed with signature and information as to final purchase amount(s), returns, and total amount deposited with the Treasurer.

FINDING NUMBER 2003-010
(Continued)

Management review of student activity financial accounts/records to ensure Sales Project Potential Forms are on file and accurately completed for all fundraising activities. If such forms are determined to be completed in error they should be investigated and corrected.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Prior Audit Findings
June 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10126-001	Ohio Revised Code § 5705.36, Ohio Revised Code § 5705.38, Ohio Revised Code § 5705.39, and Ohio Revised Code § 5705.40	No	Not corrected. Repeated as Finding #2003-003.
2002-10126-002	Ohio Revised Code § 5705.391	No	Not corrected. Repeated as Finding #2003-005.
2002-10126-003	Ohio Revised Code § 3315.17(A)	No	Not corrected. Repeated as Finding #2003-006.
2002-10126-004	Ohio Revised Code § 5705.41(B)	No	Not corrected. Repeated as Finding #2003-004.
2002-10126-005	Minute Records	No	Not corrected. Repeated as Finding #2003-007.
2002-10126-006	Fixed Assets	No	Not corrected. Repeated as Finding #2003-008
2002-10126-007	GAAP Compilation	Yes	Partially corrected. Reported in the management letter.



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SWANTON LOCAL SCHOOL DISTRICT

FULTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2004**