



**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Comparison (Non-GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Change in Fiduciary Net Assets – Private Purpose Trust Fund	21
Notes to the Basic Financial Statements.....	23
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55
Schedule of Prior Audit Findings	57

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Swanton Local School District
Fulton County
108 N. 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, Ohio (the District), as of and for the year ended June 30, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Swanton Local School District, Fulton County, Ohio, as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 3, 2006

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Highlights

Highlights for fiscal year 2005 are as follows:

- In total, net assets increased \$2,039,954, almost 265 percent. Two primary factors contributed to this increase in net assets. First, there was a reduction in expenses of over \$1 million from the prior fiscal year. The Board of Education voted to eliminate twenty teaching and support positions, which consisted of approximately one-fifth of the School District's certified staff. These cuts included high school and kindergarten teachers, guidance counselors, and librarians. The second major factor was largely from two revenue sources. The voters approved a 1.25 percent income tax which was effective in March 2004. In fiscal year 2005, collections were just over \$563,000 (this tax is expected to generate approximately \$2,018,000 annually for a five-year period.) In addition, the School District sold the township school building. The gain from the sale of this building was a little over \$500,000.
- General revenues accounted for 86 percent of all revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.
- The School District continued to receive parity aid as part of the State foundation program in fiscal year 2005. Parity aid is distributed to low wealth school districts based on the valuation of real and personal property within their boundaries. In previous fiscal years, the use of this aid was restricted to funding additional programs but in fiscal year 2003, these restrictions were lifted. The main component of the State foundation allocation was based on the average daily membership (ADM) of students enrolled during the first week of October. For the past several years, the School District's enrollment has been declining.

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 Swanton Local School 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 School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide 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 School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Swanton Local School District, the General Fund, the Bond Retirement debt service fund, and the Permanent Improvement capital projects fund are the most significant funds.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School 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. Nonfinancial factors include the School 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, all of the School District's activities are reported as governmental activities including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Permanent Improvement capital projects fund.

Governmental Funds - All of the School 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 financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

Table 1
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$12,094,292	\$9,462,063
Capital Assets, Net	18,274,644	18,694,850
Total Assets	30,368,936	28,156,913
<u>Liabilities:</u>		
Current and Other Liabilities	10,663,967	11,813,357
Long-Term Liabilities	16,895,136	15,573,677
Total Liabilities	27,559,103	27,387,034
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	2,285,710	1,868,775
Restricted	2,119,032	2,041,162
Unrestricted (Deficit)	(1,594,909)	(3,140,058)
Total Net Assets	\$2,809,833	\$769,879

Current and other assets increased \$2,632,229, or almost 28 percent. Cash and cash equivalents increased from the collection of income tax revenues of over \$563,000 and the sale of the township school building of over \$502,000. Of course, the cost cutting measures outlined earlier also helped maintain cash balances. In addition, the receivables for both property and income taxes increased from the prior fiscal year. The receivable for property taxes increased over \$879,000, the result of increased values from the triennial update, and income taxes increased from passage of the new tax.

The overall increase in total liabilities was minimal; however, note the decrease in current and other liabilities approximates the increase in long-term liabilities. This is due to the \$2,000,000 in notes payable being retired with the issuance of general obligation bonds.

Principal payments on general obligation bonds and capital leases resulted in the increase in invested in capital assets net of related debt. The decrease in the deficit unrestricted net assets is result of the increase in cash and cash equivalents.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2005 and fiscal year 2004.

Table 2
Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$876,771	\$908,378
Operating Grants, Contributions, and Interest	1,109,130	712,665
Capital Grants and Contributions	8,055	10,356
Total Program Revenues	<u>1,993,956</u>	<u>1,631,399</u>
General Revenues		
Property Taxes Levied for General Purposes	4,767,162	5,142,337
Property Taxes Levied for Recreation	64,494	44,381
Property Taxes Levied for Debt Service	1,198,432	1,251,948
Property Taxes Levied for Permanent Improvements	333,449	311,679
Income Taxes	563,490	
Grants and Entitlements	4,805,987	5,070,336
Interest	54,827	3,532
Gifts and Donations	26,540	174,110
Miscellaneous	256,386	272,323
Gain on the Sale of Capital Assets	502,751	
Total General Revenues	<u>12,573,518</u>	<u>12,270,646</u>
Total Revenues	<u>14,567,474</u>	<u>13,902,045</u>
<u>Expenses</u>		
Instruction:		
Regular	4,848,792	6,058,301
Special	1,805,248	1,300,220
Vocational	287	71,856

(continued)

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

<u>Expenses</u>	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Support Services:		
Pupils	\$325,463	\$390,609
Instructional Staff	364,988	466,971
Board of Education	3,633	121,087
Administration	948,122	1,164,964
Fiscal	363,047	460,143
Business	727	231
Operation and Maintenance of Plant	1,019,255	1,143,062
Pupil Transportation	616,977	593,670
Central	48,085	55,279
Non-Instructional Services	723,647	632,399
Extracurricular Activities	338,023	279,123
Interest and Fiscal Charges	1,121,226	831,197
Total Expenses	<u>12,527,520</u>	<u>13,569,112</u>
Increase in Net Assets	2,039,954	332,933
Net Assets Beginning of Year	<u>769,879</u>	<u>436,946</u>
Net Assets End of Year	<u><u>\$2,809,833</u></u>	<u><u>\$769,879</u></u>

Program revenues represent 14 percent of total revenues (a two percent increase over the prior fiscal year) and primarily consist of restricted intergovernmental revenues, charges for tuition, fees, and extracurricular activities, and food service sales. Operating grants and contributions and capital grants and contributions reflected as program revenues are restricted intergovernmental resources which are directly associated with certain governmental activities, such as special education funding and food service subsidies, as well as resources restricted for capital acquisition. The most significant change was in operating grants and contributions, which increased 56 percent. This is a result of Title VI-B funds not received in the prior fiscal year.

In total, general revenues were also fairly consistent with the prior fiscal year; however, increases occurred for income taxes and the sale of the township school building as noted earlier.

Overall, program expenses decreased over the prior fiscal year just under 8 percent. The Board of Education and the Administration are continuing to limit expenses. The Board of Education has eliminated twenty teaching and support positions. In addition, transportation which had been cut for high school students has not been restored (or those costs would have been higher than indicated above). In fiscal year 2004, the Board of Education and the Swanton Education Association reached an agreement

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

to freeze teachers' salaries and base wages at fiscal year 2003 levels for both fiscal years 2004 and 2005. The teachers also agreed to participate in the cost of their health insurance coverage. The Board of Education and the Teachers Association recently entered into a new contract for fiscal year 2006 and 2007. This contract calls for annual wage and salary increases of 2 percent or less, for continued participation in the payment of health insurance premiums, and certain other concessions.

The major program expense for governmental activities continues to be for instruction, which accounts for 53 percent of all governmental expenses (slightly less than fiscal year 2004). Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 10 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, almost 8 percent. Therefore, 71 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

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, 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

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$4,848,792	\$ 6,058,301	\$4,250,644	\$5,773,033
Special	1,805,248	1,300,220	1,109,978	820,132
Vocational	287	71,856	(17,022)	71,856
Support Services:				
Pupils	325,463	390,609	316,233	390,609
Instructional Staff	364,988	466,971	364,988	466,971
Board of Education	3,633	121,087	3,633	121,087
Administration	948,122	1,164,964	948,122	1,163,319
Fiscal	363,047	460,143	363,047	454,543
Business	727	231	727	231
Operation and Maintenance of Plant	1,019,255	1,143,062	1,019,255	1,143,062
Pupil Transportation	616,977	593,670	608,922	583,314
Central	48,085	55,279	22,225	55,279
Non-Instructional Services	723,647	632,399	172,719	209,361
Extracurricular Activities	338,023	279,123	248,867	83,088
Interest and Fiscal Charges	1,121,226	831,197	1,121,226	831,197
Total Expenses	<u>\$12,527,520</u>	<u>\$13,569,112</u>	<u>\$10,533,564</u>	<u>\$12,167,082</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The above table demonstrates that not only did expenses decrease from the prior fiscal year, but the dependence on general revenues also decreased somewhat. However, dependence on general revenues is still substantial with general revenues providing for over 86 percent of all program costs. Note that only a very few of the school district's programs receive significant support from program revenues. For example, 38 percent of special instruction costs are provided for through operating grants restricted for special instruction programs. Over 76 percent of non-instructional services costs were provided for through program revenues. This is primarily due to cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Approximately 26 percent of extracurricular activities expenses are paid for through program revenues. These program revenues are the result of music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Two of the School District's major funds reflect significant changes in fund balance for fiscal year 2005. The General Fund realized a 55 percent increase in its fund balance, the result of the increase in income taxes (due to the new levy) and the significant reduction in expenditures as outlined previously. The Permanent Improvement capital projects fund had an 84 percent increase in fund balance primarily resulting from the sale of the township school building.

General Fund Budgeting Highlights

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

During fiscal year 2005, the School District amended its General Fund budget as needed. Changes from original to final budget and from final budget to actual revenues realized were minimal. The same can be said for changes from the original to final budget to actual expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$18,274,644 invested in capital assets (net of accumulated depreciation), an increase of 22 percent. The increase is the result of depreciation exceeding asset additions for the fiscal year. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

The School District's outstanding debt obligations at fiscal year end included tax anticipation notes, in the amount of \$1,100,000. In addition, outstanding general obligation bonds were \$16,359,611 and energy conversation loans were \$135,000. The School District's long-term obligations also included compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Current Issues

In January 2006, the School District was released from Fiscal Caution by the Ohio Department of Education. The current five-year forecast, approved in October 2005, reflects a positive balance, with current levies being renewed. The collection of income taxes has significantly helped the School District's financial achievement as reflected in the five-year forecast.

The Board of Education has negotiated a two-year agreement with the teacher's union for fiscal years 2006 and 2007. The agreement calls for minor pay increases (2 percent) and several financial concessions (elimination of tuition reimbursement and professional development and other concessions).

Enrollment was down for the 2005 school year and this trend has continued into the 2006 school year.

School Year	Enrollment	
	Total	1st Grade
2004-05	1,479	94
2005-06	1,469	87

Due to the decline in enrollment (from 1,560 in the 2003-04 school year to 1,479 in the 2004-05 school year), the resources received through the State Foundation Program have decreased over \$281,000. With State transition aid funding, the School District expects these resources to increase approximately \$36,000 in fiscal year 2006.

Unfortunately, open enrollment has taken a negative swing from fiscal year 2004 to fiscal year 2005 and also in fiscal year 2006. The Board of Education has adopted an open enrollment policy which currently allows students from other school districts to enroll in our School District schools and our School District residents to enroll in other school districts free of tuition payments. For the fiscal year 2006, approximately fifty-four resident students attend regular public schools in other school districts and approximately fifty other school district students attend Swanton LSD. The ability of the School District to accept students from contiguous school districts is based on space and teaching staff availability. The School District estimates that it is losing approximately \$55,000 in State support as a result of its net loss of students under the open enrollment policy in fiscal year 2006.

Health insurance premiums have continued to increase. For fiscal year 2005, there was a 30 percent increase in medical premiums.

In February 2006, the Board of Education reinstated high school busing for the 2006-2007 school year.

Based on House Bill 66, the State's biennium budget bill for fiscal years 2006 and 2007, the tangible personal property tax will begin a four-year phase out effective for tax year 2006. School districts have been promised full replacement of this lost tax over the next five years via the school funding formula and direct payments from the State (excluding the inventory taxes that were already scheduled to be eliminated and the first half-mill on bond and emergency levies). The School District is anticipating several other State Foundation payment changes being implemented by HB 66 which includes the phase-out of the cost of doing business factor, the building blocks funding, and three sets of guarantee calculations. The parity aid funding formula was also changed by HB 66 and will result in a constant amount of funding for fiscal year 2006. The full effect of HB 66 will be reflected in our foundation program payments in fiscal year 2008.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School 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 Cheryl Swisher, Treasurer, Swanton Local School District, 108 North Main Street, Swanton, Ohio 43558-1032.

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**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2005**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,355,819
Accounts Receivable	31,600
Accrued Interest Receivable	1,113
Intergovernmental Receivable	85,453
Prepaid Items	13,366
Inventory Held for Resale	6,389
Materials and Supplies Inventory	1,361
Income Taxes Receivable	460,373
Property Taxes Receivable	8,037,762
Unamortized Issuance Costs	101,056
Nondepreciable Capital Assets	580,774
Depreciable Capital Assets, Net	17,693,870
Total Assets	30,368,936
 <u>Liabilities:</u>	
Accounts Payable	124,868
Accrued Wages and Benefits Payable	897,892
Intergovernmental Payable	214,169
Claims Payable	576,248
Special Termination Benefit Payable	30,000
Matured Compensated Absences Payable	81,488
Accrued Interest Payable	338,932
Notes Payable	1,100,000
Deferred Revenue	7,300,370
Long-Term Liabilities:	
Due Within One Year	734,231
Due in More Than One Year	16,160,905
Total Liabilities	27,559,103
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	2,285,710
Restricted For:	
Set Asides	94,685
Debt Service	800,052
Capital Projects	966,868
Other Purposes	257,427
Unrestricted (Deficit)	(1,594,909)
Total Net Assets	\$2,809,833

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$4,848,792	\$474,205	\$123,943		(\$4,250,644)
Special	1,805,248		695,270		(1,109,978)
Vocational	287		17,309		17,022
Support Services:					
Pupils	325,463		9,230		(316,233)
Instructional Staff	364,988				(364,988)
Board of Education	3,633				(3,633)
Administration	948,122				(948,122)
Fiscal	363,047				(363,047)
Business	727				(727)
Operation and Maintenance of Plant	1,019,255				(1,019,255)
Pupil Transportation	616,977			\$8,055	(608,922)
Central	48,085		25,860		(22,225)
Non-Instructional Services	723,647	318,897	232,031		(172,719)
Extracurricular Activities	338,023	83,669	5,487		(248,867)
Interest and Fiscal Charges	1,121,226				(1,121,226)
Total Governmental Activities	\$12,527,520	\$876,771	\$1,109,130	\$8,055	(10,533,564)
<u>General Revenues:</u>					
Property Taxes Levied for General Purposes					4,767,162
Property Taxes Levied for Recreation					64,494
Property Taxes Levied for Debt Service					1,198,432
Property Taxes Levied for Permanent Improvements					333,449
Income Taxes					563,490
Grants and Entitlements not Restricted to Specific Programs					4,805,987
Interest					54,827
Gifts and Donations					26,540
Miscellaneous					256,386
Gain on the Sale of Capital Assets					502,751
Total General Revenues					12,573,518
Change in Net Assets					2,039,954
Net Assets at Beginning of Year - Restated (Note 3)					769,879
Net Assets at End of Year					\$2,809,833

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$744,302	\$1,130,590	\$1,058,439	\$309,393	\$3,242,724
Accounts Receivable	30,901			699	31,600
Accrued Interest Receivable	1,113				1,113
Intergovernmental Receivable	84	26	12,004	73,339	85,453
Interfund Receivable	58,711	69,337	29,829	9,395	167,272
Prepaid Items	13,366				13,366
Inventory Held for Resale				6,389	6,389
Materials and Supplies Inventory				1,361	1,361
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	113,095				113,095
Income Taxes Receivable	460,373				460,373
Property Taxes Receivable	6,360,734	1,259,225	348,295	69,508	8,037,762
Total Assets	\$7,782,679	\$2,459,178	\$1,448,567	\$470,084	\$12,160,508
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$13,442		\$109,784	\$1,642	\$124,868
Accrued Wages and Benefits Payable	833,499			64,393	897,892
Intergovernmental Payable	188,059			26,110	214,169
Interfund Payable	14,088	8,889	59,928	84,367	167,272
Claims Payable	576,248				576,248
Special Termination Benefit Payable	30,000				30,000
Matured Compensated Absences Payable	81,488				81,488
Notes Payable	1,100,000				1,100,000
Deferred Revenue	6,157,565	1,165,866	324,912	65,642	7,713,985
Total Liabilities	8,994,389	1,174,755	494,624	242,154	10,905,922
<u>Fund Balances:</u>					
Reserved for Property Taxes	251,451	77,067	16,150	2,989	347,657
Reserved for Textbooks	94,685				94,685
Reserved for Bus Purchase	18,410				18,410
Reserved for Encumbrances	192,697		177,687	39,825	410,209
<u>Unreserved, Reported in:</u>					
General Fund (Deficit)	(1,768,953)				(1,768,953)
Special Revenue Funds				185,116	185,116
Debt Service Fund		1,207,356			1,207,356
Capital Projects Fund			760,106		760,106
Total Fund Balances (Deficit)	(1,211,710)	1,284,423	953,943	227,930	1,254,586
Total Liabilities and Fund Balances	\$7,782,679	\$2,459,178	\$1,448,567	\$470,084	\$12,160,508

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances		\$1,254,586
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,274,644
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	26,301	
Property Taxes Receivable	387,314	
		413,615
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		101,056
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(338,932)	
Energy Conservation Loan Payable	(135,000)	
General Obligation Bonds Payable	(16,359,611)	
Compensated Absences Payable	(400,525)	
		(17,234,068)
Net Assets of Governmental Activities		\$2,809,833

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, 2005**

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
Revenues:					
Property Taxes	\$4,930,270	\$1,218,192	\$342,910	\$65,750	\$6,557,122
Income Taxes	455,653				455,653
Intergovernmental	4,884,280	159,886	36,387	850,228	5,930,781
Interest	54,827			761	55,588
Tuition and Fees	447,404			22,739	470,143
Extracurricular Activities				181,170	181,170
Charges for Services				244,052	244,052
Gifts and Donations	9,085			38,419	47,504
Miscellaneous	195,739	5,264	11,999	18,949	231,951
Total Revenues	10,977,258	1,383,342	391,296	1,422,068	14,173,964
Expenditures:					
Current:					
Instruction:					
Regular	4,406,198			125,971	4,532,169
Special	1,267,358			540,789	1,808,147
Vocational	8,564				8,564
Support Services:					
Pupils	309,115			14,660	323,775
Instructional Staff	354,359		15,234	15,051	384,644
Board of Education	3,633				3,633
Administration	958,501			10,262	968,763
Fiscal	337,742	16,115	3,848	5,034	362,739
Business	727				727
Operation and Maintenance of Plant	1,003,409				1,003,409
Pupil Transportation	529,909			28,576	558,485
Central	48,085				48,085
Non-Instructional Services	28,953			626,755	655,708
Extracurricular Activities	209,189			88,078	297,267
Capital Outlay			300,055	12,764	312,819
Debt Service:					
Principal Retirement		2,625,000	111,083		2,736,083
Interest and Fiscal Charges		770,123	1,371		771,494
Issuance Costs		101,056			101,056
Total Expenditures	9,465,742	3,512,294	431,591	1,467,940	14,877,567
Excess of Revenues Over (Under) Expenditures	1,511,516	(2,128,952)	(40,295)	(45,872)	(703,603)
Other Financing Sources (Uses):					
General Obligation Bonds Issued		1,999,998			1,999,998
Premium on Bonds Issued		207,713			207,713
Sale of Capital Assets			509,985		509,985
Transfers In	20,000	63,033	25,656	66,334	175,023
Transfers Out	(60,550)	(8,889)	(59,928)	(45,656)	(175,023)
Total Other Financing Sources (Uses)	(40,550)	2,261,855	475,713	20,678	2,717,696
Changes in Fund Balances	1,470,966	132,903	435,418	(25,194)	2,014,093
Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)	(2,682,676)	1,151,520	518,525	253,124	(759,507)
Fund Balances (Deficit) at End of Year	(\$1,211,710)	\$1,284,423	\$953,943	\$227,930	\$1,254,586

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2005**

Changes in Fund Balances - Total Governmental Funds		\$2,014,093
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlays 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 depreciation exceeded capital outlays in the current fiscal year:</p>		
Capital Outlay - Nondepreciable Capital Assets	\$17,108	
Capital Outlay - Depreciable Capital Assets	7,080	
Depreciation	<u>(437,160)</u>	(412,972)
<p>The cost of capital assets removed from the capital asset account on the statement of net assets results in a gain on disposal of capital assets on the statement of activities.</p>		
Proceeds from Sale of Capital Assets	(509,985)	
Gain on Disposal	<u>502,751</u>	(7,234)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Property Taxes	(193,585)	
Income Taxes	107,837	
Intergovernmental	(34,821)	
Tuition and Fees	<u>26,301</u>	(94,268)
<p>Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		2,736,083
<p>Bond proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.</p>		
		(1,999,998)
<p>Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums are reported as revenues when the debt is first issued but are amortized on the statement of activities.</p>		
Accrued Interest Payable	(338,932)	
Annual Accretion	(10,800)	
Unamortized Premium	<u>(207,713)</u>	(557,445)
<p>Issuance costs are reported as an expenditure when paid in the governmental funds.</p>		
		101,056
<p>Some expenses reported on the statement of activities, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.</p>		
Intergovernmental Payable	99,670	
Compensated Absences Payable	<u>160,969</u>	<u>260,639</u>
Change in Net Assets of Governmental Activities		<u><u>\$2,039,954</u></u>

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$4,952,400	\$4,886,256	\$4,835,238	(\$51,018)
Income Taxes	124,860	101,621	103,117	1,496
Intergovernmental	4,872,607	4,833,262	4,884,280	51,018
Interest	10,000	45,293	50,859	5,566
Tuition and Fees	539,461	447,379	447,379	
Gifts and Donations		4,585	4,585	
Miscellaneous	253,600	153,242	154,091	849
Total Revenues	10,752,928	10,471,638	10,479,549	7,911
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,999,478	4,715,311	4,689,277	26,034
Special	391,896	1,332,818	1,319,374	13,444
Vocational	25,708	8,564	8,564	
Support Services:				
Pupils	377,007	329,886	322,503	7,383
Instructional Staff	413,505	412,967	403,831	9,136
Board of Education	59,750	5,897	5,882	15
Administration	1,059,107	1,068,479	1,040,949	27,530
Fiscal	367,088	385,031	372,899	12,132
Business	750	750	727	23
Operation and Maintenance of Plant	1,134,344	1,105,397	1,060,071	45,326
Pupil Transportation	573,810	572,538	553,600	18,938
Central	55,000	55,000	55,000	
Extracurricular Activities	226,731	223,246	222,958	288
Total Expenditures	10,684,174	10,215,884	10,055,635	160,249
Excess of Revenues Over Expenditures	68,754	255,754	423,914	168,160
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures		38,303	38,303	
Refund of Prior Year Receipts	(3,813)	(3,813)	(3,813)	
Advances Out		(23,738)	(23,738)	
Transfers Out	(10,000)	(60,550)	(60,550)	
Total Other Financing Sources (Uses)	(13,813)	(49,798)	(49,798)	
Changes in Fund Balance	54,941	205,956	374,116	168,160
Fund Balance at Beginning of Year	229,940	229,940	229,940	
Prior Year Encumbrances Appropriated	48,345	48,345	48,345	
Fund Balance at End of Year	\$333,226	\$484,241	\$652,401	\$168,160

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$13,564	\$19,235
<u>Liabilities:</u>		
Undistributed Assets		\$19,235
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$13,564	

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Change in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005**

<u>Additions:</u>	
Interest	\$108
Miscellaneous	5,750
Total Additions	<u>5,858</u>
 <u>Deductions:</u>	
Non-Instructional Services	<u>6,249</u>
Change in Net Assets	(391)
Net Assets at Beginning of Year - Restated (Note 3)	<u>13,955</u>
Net Assets at End of Year	<u><u>\$13,564</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, 2005**

NOTE 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 and 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, Hardin, Spencer, Swancreek, and Swanton Townships. The School District is the 375th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by fifty-six classified employees, eighty-two certified teaching personnel, and six administrative employees who provide services to 1,298 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 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 School District's reporting entity includes the following:

St. Richards Catholic School - Within the School District's boundaries, St. 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 participates in six jointly governed organizations, two insurance pools, and is associated with a related organization. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Joint Recreation Board, the Northwestern Ohio Educational Research Council, Inc., the Penta Career Center, the Ohio Schools Council Association, the Ohio School Plan, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Swanton Public Library. These organizations are presented in Notes 21, 22, and 23 to the basic financial statements.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest 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 each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Governmental Funds

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

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 balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on bond anticipation notes and general obligation bonds.

Permanent Improvement Fund - The Permanent Improvement capital projects fund accounts for the acquisition, construction, or improvement of capital facilities.

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of 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. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast and debt schedules), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the General Fund and the fund level in all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds, other than the General Fund, are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2005, the School District's investments consisted of repurchase agreements. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$54,827, which includes \$40,306 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

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

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks as well as unexpended revenues restricted for the purchase of school buses.

J. Unamortized Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges.

On the governmental fund financial statements, issuance costs are recognized in the current period.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

K. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of five thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 - 75 years
Buildings and Building Improvements	9 - 108 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	7 - 20 years

L. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

M. Compensated Absences

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

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

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as liabilities on the fund financial statements when due.

O. Unamortized Premium

Bond premiums are deferred and amortized over the term of the bonds using the bonds-outstanding method. Premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, bond premiums are recognized in the current period.

P. 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 balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. As of June 30, 2005, net assets restricted by enabling legislation were \$2,381,413.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, bus purchase, 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, 2005
(CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

R. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

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.

S. 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 management and are either unusual in nature or infrequent in occurrence.

T. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES, ACCOUNTING CHANGE, AND RESTATEMENT OF NET ASSETS

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

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any change to the School District's financial statements.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES, ACCOUNTING CHANGE, AND RESTATEMENT OF NET ASSETS – (CONTINUED)

In the prior fiscal year, the School District recorded several items incorrectly in the General Fund and in other governmental funds. There were also a number of corrections for capital assets reported incorrectly in prior fiscal years. In addition, the School District did not report its scholarship fund as a private purpose trust fund in the prior fiscal year. These changes had the following effect on fund balance and net assets as previously reported.

	General	Other Governmental
Fund Balance June 30, 2004	(\$2,657,687)	\$242,079
Correction of Errors	(24,989)	25,000
Change in Fund Structure	(13,955)	(13,955)
Adjusted Fund Balance June 30, 2004	(\$2,682,676)	\$253,124

The restatement had the following effect on net assets:

	Total Governmental Activities	Private Purpose Trust
Net Assets June 30, 2004	\$1,834,683	
Capital Assets	(1,837,411)	
Accumulated Depreciation	786,551	
Correction of Errors	11	
Change in Fund Structure	(13,955)	\$13,955
Adjusted Net Assets June 30, 2004	\$769,879	\$13,955

NOTE 4 - ACCOUNTABILITY

At June 30, 2005, the General Fund and the Food Service, Education Management Information Systems, and Student Intervention special revenue funds had deficit fund balances, in the amount of \$1,211,710, \$14,459, \$34, and \$2,056, respectively, resulting from adjustments for accrued liabilities.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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 adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$1,470,966
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	239,974
Accrued FY 2005, Not Yet Received in Cash	(696,525)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(2,100,935)
Accrued FY 2005, Not Yet Paid in Cash	1,722,736
Cash Adjustments:	
Unrecorded Activity FY 2005	(2,855)
Prepaid Items	(13,366)
Advances Out	(23,738)
Transfers In	(20,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(202,141)
Budget Basis	\$374,116

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,091,473 of the School District's bank balance of \$1,326,137 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2005, the School District had the following investments.

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreements	\$2,274,797	February 20, 2032

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District has no investment policy regarding interest rate risk. The Treasurer is limited in investing in anything other than as identified in the Ohio Revised Code.

The securities underlying the repurchase agreements (Government National Mortgage Association Notes) carry a rating of AAA by Moody's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute which require the market value of the securities underlying the repurchase agreement to exceed the principal value of the agreement by at least 2 percent and be marked to market daily and the term must not exceed thirty days.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreements are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial credit risk beyond the requirements of State statute.

The School District places no limit on the amount of its interim monies it may invest in a particular security. At fiscal year end, all of the School District's investments were repurchase agreements.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, interfund, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Homestead and Rollback	\$84
Bond Retirement Fund	
Homestead and Rollback	26
Permanent Improvement Fund	
Homestead and Rollback	11,999
Penta Career Center	5
Total Permanent Improvement Fund	12,004
Other Governmental Funds	
Title I	59,285
Title II-A	14,054
Total Other Governmental Funds	73,339
Total Intergovernmental Receivables	\$85,453

NOTE 8 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was effective on March 2, 2004, for a five-year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 9 - PROPERTY TAXES

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, for fiscal year 2005, this settlement was delayed beyond fiscal year end.

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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, and for which there was 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 and the late personal property tax settlement were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$251,451 in the General Fund, \$2,989 in the Recreation other governmental special revenue fund, \$77,067 in the Bond Retirement debt service fund, and \$16,150 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$228,271 in the General Fund, \$5,961 in the Recreation other governmental special revenue fund, \$70,040 in the Bond Retirement debt service fund, and \$14,840 in the Permanent Improvement capital projects fund.

The late settlement made by the counties for fiscal year 2005 was \$85,940 in the General Fund, \$877 in the Recreation other governmental special revenue fund, \$16,318 in the Bond Retirement debt service fund, and \$7,238 in the Permanent Improvement capital projects fund.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

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

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$145,991,420	76.04%	\$145,692,530	75.91%
Industrial/Commercial	24,739,710	12.89	24,724,310	12.88
Public Utility	8,131,090	4.24	8,316,930	4.33
Tangible Personal	13,124,704	6.83	13,192,945	6.88
Total Assessed Value	\$191,986,924	100.00%	\$191,926,715	100.00%
Tax rate per \$1,000 of assessed valuation	\$68.11		\$67.78	

NOTE 10 - CAPITAL ASSETS

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

	Restated Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$563,666			\$563,666
Construction in Progress		\$17,108		17,108
Total Nondepreciable Capital Assets	563,666	17,108		580,774
Depreciable Capital Assets				
Land Improvements	490,580	7,080	(\$8,183)	489,477
Buildings and Building Improvements	19,567,215		(173,435)	19,393,780
Furniture, Fixtures, and Equipment	735,335			735,335
Vehicles	1,267,735			1,267,735
Total Depreciable Capital Assets	22,060,865	7,080	(181,618)	21,886,327

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	Restated Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Less Accumulated Depreciation				
Land Improvements	(\$197,249)	(\$5,559)	\$8,183	(\$194,625)
Buildings and Building Improvements	(2,709,428)	(317,643)	166,201	(2,860,870)
Furniture, Fixtures, and Equipment	(232,036)	(44,649)		(276,685)
Vehicles	(790,968)	(69,309)		(860,277)
Total Accumulated Depreciation	<u>(3,929,681)</u>	<u>(437,160)</u>	<u>174,384</u>	<u>(4,192,457)</u>
Depreciable Capital Assets, Net	<u>18,131,184</u>	<u>(430,080)</u>	<u>(7,234)</u>	<u>17,693,870</u>
Governmental Activities Capital Assets, Net	<u>\$18,694,850</u>	<u>(\$412,972)</u>	<u>(\$7,234)</u>	<u>\$18,274,644</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$198,366
Special	13,733
Support Services:	
Pupils	3,366
Instructional Staff	22,289
Administration	20,701
Fiscal	986
Operation and Maintenance of Plant	18,430
Pupil Transportation	67,958
Non-Instructional Services	46,390
Extracurricular Activities	44,941
Total Depreciation Expense	<u>\$437,160</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 11 - INTERFUND ASSETS/LIABILITIES

Interfund balances at June 30, 2005, consisted of the following individual fund receivables and payables:

Due to General Fund from:	
Other Governmental Funds	\$58,711
Due to Bond Retirement Fund from:	
General Fund	\$9,409
Permanent Improvement Fund	59,928
Total Bond Retirement Fund	\$69,337
Due to Permanent Improvement Fund from:	
General Fund	\$4,173
Other Governmental Funds	25,656
Total Permanent Improvement Fund	\$29,829
Due to Other Governmental Funds from:	
General Fund	\$506
Bond Retirement Fund	8,889
Total Other Governmental Funds	\$9,395

The above balances resulted from goods and services provided which remained unpaid at fiscal year end, from the provision of cash flow resources until the receipt of grant monies, and from resources improperly allocated to funds which were not repaid at fiscal year end.

NOTE 12 - 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 2005, the School District contracted for the following insurance coverage.

Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Excess Liability	2,000,000

Coverage provided by Stapleton Insurance is as follows:

Building and Contents	37,704,200
Vehicle Liability	1,000,000
Uninsured/Underinsured Motorists	100,000

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 12 - RISK MANAGEMENT – (CONTINUED)

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 2005, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (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 its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and performs its obligations in accordance with the terms of the agreement.

The School District offers medical, drug, and dental insurance to all employees through a self-insured program. The School District's third party administrator is OME-RESA Health Benefits. The School District purchased stop loss insurance for claims in excess of \$1,000,000. Settled claims have not exceeded this coverage for the past three years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2005, were estimated by the third-party administrator at \$576,248.

The changes in the claims liability for the past two fiscal years were as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2005	\$781,858	\$627,440	\$833,050	\$576,248
2004	449,786	1,664,843	1,332,771	781,858

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003, was \$589,140, \$644,878, and \$760,057, respectively; 88 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$124 made by the School District and \$727 made by plan members.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$147,577, \$128,211, and \$123,756, respectively; 62 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participate in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$45,328.

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$69,126 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 15 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty days for classified employees and two hundred thirty-five days for certified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of sixty days for classified employees. For certified employees, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of fifty-eight days. In addition, the employee will receive an additional \$50 for each year of service to the School District, up to a maximum of 30 years of service.

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. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in June 2006.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 15 - OTHER EMPLOYEE BENEFITS – (CONTINUED)

C. Special Termination Benefit

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 ended in August 2005.

NOTE 16 - NOTES PAYABLE

The School District's notes payable activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Rate</u>	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities					
School Improvement Notes Payable	2.46%	\$2,000,000		\$2,000,000	
Tax Anticipation Notes Payable	3.37	1,100,000			1,100,000
		<u>\$3,100,000</u>		<u>\$2,000,000</u>	<u>\$1,100,000</u>

On April 14, 2004, the School District issued bond anticipation notes, in the amount of \$2,000,000, to construct a new high school. The notes had an interest rate of 2.46 percent and matured on January 13, 2005.

On June 1, 2004, the School District issued tax anticipation notes, in the amount of \$1,100,000, in anticipation of the proceeds of the income tax approved by the electors of the School District on March 2, 2004. The notes have an interest rate of 3.37 percent and will mature on December 1, 2009.

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2005, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$220,000	\$37,070	\$257,070
2007	220,000	29,656	249,656
2008	220,000	22,242	242,242
2009	220,000	14,828	234,828
2010	220,000	7,414	227,414
Total	<u>\$1,100,000</u>	<u>\$111,210</u>	<u>\$1,211,210</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 17 - LONG-TERM OBLIGATIONS

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
<u>General Obligation Bonds</u>					
FY01 School Improvement Bonds					
Serial Bonds 3-4.4%	\$3,910,000		\$595,000	\$3,315,000	\$660,000
Term Bonds 4.9-5.25%	10,115,000			10,115,000	
Capital Appreciation Bonds 4.9-5%	524,992			524,992	
Accretion of Capital Appreciation Bonds	186,108	\$2,004		188,112	
FY05 School Improvement Bonds					
Serial Bonds 2.5-3.25%		880,000		880,000	
Term Bonds 4-4.25%		1,020,000		1,020,000	
Capital Appreciation Bonds 3.83-4.07%		99,998		99,998	
Accretion of Capital Appreciation Bonds		8,796		8,796	
Premium		207,713		207,713	
Total General Obligation Bonds	14,736,100	2,218,511	595,000	16,359,611	660,000
FY99 Energy Conservation Loan					
4.6%	165,000		30,000	135,000	30,000
Compensated Absences Payable	561,494		160,969	400,525	44,231
Capital Leases Payable	111,083		111,083		
Total Governmental Activities Long -Term Obligations	<u>\$15,573,677</u>	<u>\$2,218,511</u>	<u>\$897,052</u>	<u>\$16,895,136</u>	<u>\$734,231</u>

FY01 School Improvement Bonds - On June 1, 2001, the School District issued \$15,999,992 in voted general obligation bonds for buildings and other improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$5,360,000, \$10,115,000, and \$524,992, respectively. The bonds were issued for a twenty-six year period, with final maturity during fiscal year 2027. The bonds will be retired 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, 2005
(CONTINUED)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

The term bonds maturing on December 1, 2015, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in the year 2014 (with the balance of \$685,000 to be paid at stated maturity on December 1, 2015), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2014	\$650,000

The term bonds maturing on December 1, 2017, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in the year 2016 (with the balance of \$750,000 to be paid at stated maturity on December 1, 2017), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2016	\$720,000

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2018 through 2020 (with the balance of \$925,000 to be paid at stated maturity on December 1, 2021), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2018	\$785,000
2019	825,000
2020	880,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2022 through 2024 (with the balance of \$910,000 to be paid at stated maturity on December 1, 2025), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2022	\$965,000
2023	1,000,000
2024	1,020,000

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

Term bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial bonds are subject to optional redemption on or after December 1, 2011, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date and in integral multiples of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date, according to the following schedule:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2011, through November 30, 2012	101%
December 1, 2012, and thereafter	100

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2013 and 2014. The maturity amount of the bonds is \$1,300,000. For fiscal year 2005, \$2,004 was accreted for a total bond value of \$713,104 at fiscal year end.

FY05 School Improvement Bonds - On December 1, 2004, the School District issued \$1,999,998 in voted general obligation bonds to retire \$2,000,000 of outstanding bond anticipation notes. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$880,000, \$1,020,000, and \$99,998, respectively. The bonds were issued for a twenty-one year period, with final maturity during fiscal year 2026. The bonds will be retired through the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2015 through 2017 (with the balance of \$95,000 to be paid at stated maturity on December 1, 2018), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2015	\$95,000
2016	90,000
2017	95,000

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2016 through 2021 (with the balance of \$85,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2019	\$75,000
2020	80,000
2021	80,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2023 through 2024 (with the balance of \$100,000 to be paid at stated maturity on December 1, 2025), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$110,000
2024	115,000

Term bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial bonds are subject to optional prior redemption, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, on any date on or after December 1, 2014, at a redemption price of 100 percent of the principal amount redeemed, plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2012 through 2014. The maturity amount of the bonds is \$435,000. For fiscal year 2005, \$8,796 was accreted for a total bond value of \$108,794 at fiscal year end.

FY99 Energy Conservation Loan - 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 Sections 133.06(G) and 3313.372 for a nine year period, with final maturity during fiscal year 2008. The loan is being repaid through the Bond Retirement debt service fund.

Compensated absences will be paid from the General Fund, and the Food Service and Auxiliary Services special revenue funds.

The School District's overall debt margin was \$2,602,837 with an unvoted debt margin of \$191,927 at June 30, 2005.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

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

General Obligation Bonds					
Fiscal Year Ending June 30,	Serial	Term	Capital Appreciation	Interest	Total
2006	\$660,000			\$711,958	\$1,371,958
2007	770,000			685,478	1,455,478
2008	410,000			664,187	1,074,187
2009	500,000			648,430	1,148,430
2010	510,000			629,690	1,139,690
2011-2015	1,345,000	\$650,000	\$624,990	3,976,861	6,596,851
2016-2020		4,215,000		2,163,154	6,378,154
2021-2025		5,260,000		961,081	6,221,081
2026		1,010,000		26,013	1,036,013
Total	<u>\$4,195,000</u>	<u>\$11,135,000</u>	<u>\$624,990</u>	<u>\$10,466,852</u>	<u>26,421,842</u>

Energy Conservation Loan			
Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$30,000	\$5,520	\$35,520
2007	35,000	4,025	39,025
2008	35,000	2,415	37,415
2009	35,000	805	35,805
2010			
2011-2015			
2016-2020			
2021-2025			
2026			
Total	<u>\$135,000</u>	<u>\$12,765</u>	<u>\$147,765</u>

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2005 were \$111,083.

NOTE 19 - SET ASIDES

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 fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbooks	Capital Improvements
Balance June 30, 2004	\$153,458	
Current Year Set Aside Requirement	206,940	\$206,940
Current Year Offsets		(181,159)
Qualifying Expenditures	(265,713)	(25,781)
Balance June 30, 2005	\$94,685	

NOTE 20 - INTERFUND TRANSFERS

During fiscal year 2005, the General Fund transferred \$57,445 to other governmental funds to subsidize operations and \$3,105 to the Bond Retirement debt service fund as debt payments came due.

The Bond Retirement debt service fund transferred \$8,889 to other governmental funds, the Permanent Improvement capital projects fund transferred \$59,928 to the Bond Retirement debt service fund, and other governmental funds transferred \$25,656 to the Permanent Improvement capital projects fund, all to reallocate taxes improperly recorded. In addition, other governmental funds transferred \$20,000 to the General Fund for an advance recorded in prior fiscal years.

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2005, the School District paid \$49,152 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 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 educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Joint Recreation Board

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

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

D. Northwestern Ohio Educational Research Council, Inc.

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

E. Penta Career Center

The Penta Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education. The Career Center operates under the direction of a Board consisting of one representative from each of the sixteen participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Carrie J. Herringshaw, treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551.

F. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among thirty-eight school districts, which was formed to purchase quality products and services at the lowest possible cost to participating school districts. The Council is governed by a board consisting of seven superintendents from the participating school districts. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained from the Ohio Schools Council Association, 155 Center Road, Bedford, Ohio 44146.

The School District participates in the Council's prepaid electricity program, Energy for Education Program II. This program allows the School District to purchase electricity at reduced rates if the School District commits to participating through December 2008. The School District makes monthly payments based on estimated usage. Estimates are compared to actual usage and adjustments are made annually.

NOTE 22 - INSURANCE POOLS

A. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuetz Insurance Agency, Inc., and a

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

NOTE 22 - INSURANCE POOLS – (CONTINUED)

member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

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

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

NOTE 23 - RELATED ORGANIZATION

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 budgeting and contracting 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, 305 Chestnut Street, Swanton, Ohio 43558.

NOTE 24 - 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, 2005.

B. Litigation

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

NOTE 25 - SUBSEQUENT EVENT

On March 28, 2006, the School District issued general obligation refunding bonds, in the amount of \$8,780,000, to refund bonds previously issued to construct and equip a new high school. The bonds have an interest rate of 4.12 percent and mature in fiscal year 2025. The bonds refunded school improvement bonds, in the amount of \$8,779,997, with an interest rate of 5.18 percent.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Swanton Local School District, Fulton County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 3, 2006, we reported another matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Swanton Local School District
Fulton County
Independent Accountant's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required
By District Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management, and the board of education, and it is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 3, 2006

**SWANTON LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code 3315.17 (A)	Yes	
2004-002	Capital Assets	No	Partially corrected, repeated in Management letter due to improvement noted.
2004-003	Student Activities	No	Partially corrected, repeated In Management Letter due to improvement noted.



**Auditor of State
Betty Montgomery**

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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 30, 2006**