



**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Swanton Local School District  
Fulton County  
108 North Main Street  
Swanton, Ohio 43588-1032

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, 2006, 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, 2006, and the respective changes in financial position, thereof and the 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 April 19, 2007, 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.

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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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 19, 2007

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The discussion and analysis of Swanton Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$2,990,541, over 106 percent. Two primary factors contributed to this increase in net assets. First, 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. For fiscal year 2006, collections were over \$2.1 million (this tax is expected to generate approximately \$2,018,000 annually for a five-year period). Second, the increase in revenues for fiscal year 2006 was 10 percent while the increase in expenses was only 4 percent.
- General revenues accounted for almost 88 percent of total 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 2006. 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.
- During fiscal year 2006, the School District advance refunded \$8,780,000 in school improvement general obligation bonds. This refunding resulted in an economic gain for the School District of over \$510,000.

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 non-major 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, 2006  
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 2006. 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. Non-financial 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 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, 2006  
UNAUDITED  
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The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

Table 1  
Net Assets

	Governmental Activities	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$12,910,706	\$10,737,480
Capital Assets, Net	18,216,072	18,274,644
Total Assets	31,126,778	29,012,124
<u>Liabilities:</u>		
Current and Other Liabilities	9,035,959	9,307,155
Long-Term Liabilities	16,290,445	16,895,136
Total Liabilities	25,326,404	26,202,291
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,767,853	2,285,710
Restricted	1,466,962	2,119,032
Unrestricted (Deficit)	565,559	(1,594,909)
Total Net Assets	\$5,800,374	\$2,809,833

Current and other assets increased \$2,173,226, or over 20 percent. Overall cash and cash equivalents increased \$698,000 due to the increase in income tax collections. In addition, the overall receivable for taxes increased \$1.1 million from fiscal year 2005. While the largest portion of the this increase is from income taxes, the receivable for property taxes also increased as a result of a property reappraisal in Fulton County. All of these factors contributed to the increase in unrestricted net assets.

In addition, both invested in capital assets and restricted net assets had significant changes from the prior fiscal year. The increase in invested in capital assets is due to asset additions and debt reduction. The decrease in restricted net assets is due to resources spent for debt reduction and permanent improvements.

**SWANTON LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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Table 2 reflects the changes in net assets for fiscal year 2006 and fiscal year 2005.

Table 2  
Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$757,428	\$876,771
Operating Grants, Contributions, and Interest	1,199,220	1,109,130
Capital Grants and Contributions	7,093	8,055
Total Program Revenues	<u>1,963,741</u>	<u>1,993,956</u>
General Revenues		
Property Taxes Levied for General Purposes	4,968,615	4,767,162
Property Taxes Levied for Recreation	53,435	64,494
Property Taxes Levied for Debt Service	1,006,645	1,198,432
Property Taxes Levied for Permanent Improvements	293,862	333,449
Income Taxes	2,160,705	563,490
Grants and Entitlements	4,870,604	4,805,987
Interest	195,924	54,827
Gifts and Donations	25,792	26,540
Miscellaneous	465,951	256,386
Gain on the Sale of Capital Assets		502,751
Total General Revenues	<u>14,041,533</u>	<u>12,573,518</u>
Total Revenues	<u>16,005,274</u>	<u>14,567,474</u>
<u>Expenses</u>		
Instruction:		
Regular	5,686,029	4,848,792
Special	1,453,882	1,805,248
Vocational		287
		(continued)

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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Table 2  
Change in Net Assets  
(continued)

<u>Expenses</u>	Governmental Activities 2006	Governmental Activities 2005
Support Services:		
Pupils	\$533,993	\$325,463
Instructional Staff	494,113	364,988
Board of Education	5,410	3,633
Administration	1,089,133	948,122
Fiscal	435,773	363,047
Business	1,352	727
Operation and Maintenance of Plant	1,118,684	1,019,255
Pupil Transportation	679,534	616,977
Central	86,779	48,085
Non-Instructional Services	633,631	723,647
Extracurricular Activities	399,671	338,023
Interest and Fiscal Charges	396,749	1,121,226
Total Expenses	<u>13,014,733</u>	<u>12,527,520</u>
Increase in Net Assets	2,990,541	2,039,954
Net Assets at Beginning of Year	<u>2,809,833</u>	<u>769,879</u>
Net Assets at End of Year	<u>\$5,800,374</u>	<u>\$2,809,833</u>

Program revenues represent 12 percent of total revenues (slightly less than the prior fiscal year) and primarily consist of restricted intergovernmental revenues, tuition, fees, charges for 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.

With the exception of income taxes, general revenues were also fairly consistent with the prior fiscal year. The increase in income taxes was due to a full year of collections, collections in fiscal year 2005 were for a partial year.

**SWANTON LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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(Continued)**

Overall, program expenses increased from the prior fiscal year just under 4 percent. The Board of Education and the Administration are continuing to limit expenses. The Board of Education eliminated twenty teaching and support positions in fiscal year 2005 and has only been replacing positions vacated through attrition. 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 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 Education Association entered into a new contract for fiscal years 2006 and 2007. This contract calls for annual wage and salary increases of 2 percent and for continued participation in the payment of health insurance premiums.

The major program expense for governmental activities continues to be for instruction, which accounts for 55 percent of all governmental expenses (a 2 percent increase over fiscal year 2005). Other programs which directly support the instruction process, including pupils, instructional staff, and pupil transportation account for 13 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, a little over 8 percent. Therefore, 76 percent of the School District's expenses are directly 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.

**SWANTON LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$5,686,029	\$4,848,792	\$5,209,833	\$4,250,644
Special	1,453,882	1,805,248	671,388	1,109,978
Vocational		287	(10,727)	(17,022)
Support Services:				
Pupils	533,993	325,463	523,797	316,233
Instructional Staff	494,113	364,988	494,113	364,988
Board of Education	5,410	3,633	5,410	3,633
Administration	1,089,133	948,122	1,089,133	948,122
Fiscal	435,773	363,047	435,773	363,047
Business	1,352	727	1,352	727
Operation and Maintenance of Plant	1,118,684	1,019,255	1,118,684	1,019,255
Pupil Transportation	679,534	616,977	672,441	608,922
Central	86,779	48,085	74,779	22,225
Non-Instructional Services	633,631	723,647	53,236	172,719
Extracurricular Activities	399,671	338,023	315,031	248,867
Interest and Fiscal Charges	396,749	1,121,226	396,749	1,121,226
Total Expenses	<u>\$13,014,733</u>	<u>\$12,527,520</u>	<u>\$11,050,992</u>	<u>\$10,533,564</u>

The above table demonstrates that not only did expenses increase from the prior fiscal year, but the dependence on general revenues also increased slightly. Dependence on general revenues is substantial with general revenues providing for almost 88 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, 54 percent of special instruction costs are provided for through operating grants restricted for special instruction programs. Almost 92 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 21 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.

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All of the School District's major funds reflect fairly significant changes in fund balance for fiscal year 2006. The General Fund realized a 206 percent increase in its fund balance, mainly the result of the increase in income taxes of over \$1.6 million (due to the new levy), increased interest of \$141,000, and increased miscellaneous revenue of \$180,000 (mainly due to increased long-term building rentals and miscellaneous reimbursements). The Bond Retirement debt service fund had a 10 percent decrease in fund balance due to debt service requirements exceeding property taxes received during the year. The Permanent Improvement capital projects fund had a 36 percent decrease in fund balance due to capital outlay expenditures exceeding revenues.

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 2006, the School District amended its General Fund budget as needed. For both revenues and expenditures, changes from the original budget to the final budget and from final budget to actual revenues and expenditures realized were minimal.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$18,216,072 invested in capital assets (net of accumulated depreciation), a decrease of less than 1 percent. 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 \$880,000. In addition, outstanding general obligation bonds were \$15,570,360 and energy conversation loans were \$105,000. The School District's long-term obligations also included compensated absences.

During fiscal year 2006, the School District advance refunded \$8,780,000 in school improvement general obligation bonds. This refunding resulted in an economic gain for the School District of over \$510,000. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

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 2006, 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 income tax, originally projected at collecting \$2,018,000 per year, is currently collecting over \$2,200,000 per year.

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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(Continued)**

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).

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 seventy-one resident students attend regular public schools in other school districts and approximately forty-six 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 \$120,000 in State support as a result of its net loss of students under the open enrollment policy in fiscal year 2006.

Health insurance premiums remained constant in 2006. For fiscal year 2005, there was a 30 percent increase in medical premiums. The Board has taken great strides in eliminating over \$300,000 in debt to the consortium and now has a positive balance in the consortium pool.

In February 2006, the Board of Education reinstated high school busing for the remainder of 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.

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.

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Net Assets  
June 30, 2006**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,691,992
Cash and Cash Equivalents with Fiscal Agents	352,196
Accounts Receivable	50,819
Accrued Interest Receivable	6,102
Intergovernmental Receivable	234,519
Prepaid Items	13,026
Inventory Held for Resale	8,154
Materials and Supplies Inventory	2,342
Income Taxes Receivable	1,154,687
Property Taxes Receivable	7,138,415
Unamortized Issuance Costs	258,454
Nondepreciable Capital Assets	569,674
Depreciable Capital Assets, Net	17,646,398
Total Assets	31,126,778
 <u>Liabilities:</u>	
Accounts Payable	31,072
Contracts Payable	18,881
Accrued Wages and Benefits Payable	950,278
Intergovernmental Payable	325,661
Retainage Payable	18,881
Claims Payable	410,348
Separation Benefit Payable	15,000
Matured Compensated Absences Payable	17,374
Accrued Interest Payable	63,035
Notes Payable	880,000
Deferred Revenue	6,305,429
Long-Term Liabilities:	
Due Within One Year	1,061,215
Due in More Than One Year	15,229,230
Total Liabilities	25,326,404
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	3,767,853
Restricted For:	
Set Asides	166,499
Debt Service	457,438
Capital Projects	617,781
Other Purposes	225,244
Unrestricted	565,559
Total Net Assets	\$5,800,374

See Accompanying Notes to the Basic Financial Statements



**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

Statement of Activities  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$5,686,029	\$356,084	\$120,112		(\$5,209,833)
Special	1,453,882		782,494		(671,388)
Vocational			10,727		10,727
Support Services:					
Pupils	533,993		10,196		(523,797)
Instructional Staff	494,113				(494,113)
Board of Education	5,410				(5,410)
Administration	1,089,133				(1,089,133)
Fiscal	435,773				(435,773)
Business	1,352				(1,352)
Operation and Maintenance of Plant	1,118,684				(1,118,684)
Pupil Transportation	679,534			\$7,093	(672,441)
Central	86,779		12,000		(74,779)
Non-Instructional Services	633,631	323,188	257,207		(53,236)
Extracurricular Activities	399,671	78,156	6,484		(315,031)
Interest and Fiscal Charges	396,749				(396,749)
<b>Total Governmental Activities</b>	<b>\$13,014,733</b>	<b>\$757,428</b>	<b>\$1,199,220</b>	<b>\$7,093</b>	<b>(11,050,992)</b>
<u>General Revenues:</u>					
					4,968,615
					53,435
					1,006,645
					293,862
					2,160,705
					4,870,604
					195,924
					25,792
					465,951
					<u>14,041,533</u>
					2,990,541
					2,809,833
					<u>\$5,800,374</u>

See Accompanying Notes to the Basic Financial Statements

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2006**

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$1,613,172	\$1,035,918	\$632,829	\$236,482	\$3,518,401
Cash and Cash Equivalents with Fiscal Agents	352,196				352,196
Accounts Receivable	40,519	10,028		272	50,819
Accrued Interest Receivable	6,102				6,102
Intergovernmental Receivable	185,327			49,192	234,519
Interfund Receivable		339	136	191	666
Prepaid Items	13,026				13,026
Inventory Held for Resale				8,154	8,154
Materials and Supplies Inventory				2,342	2,342
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	173,591				173,591
Income Taxes Receivable	1,154,687				1,154,687
Property Taxes Receivable	5,332,400	1,411,378	335,870	58,767	7,138,415
<b>Total Assets</b>	<b>\$8,871,020</b>	<b>\$2,457,663</b>	<b>\$968,835</b>	<b>\$355,400</b>	<b>\$12,652,918</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$10,938		\$14,714	\$5,420	\$31,072
Contracts Payable			18,881		18,881
Accrued Wages and Benefits Payable	889,388			60,890	950,278
Intergovernmental Payable	297,319			28,342	325,661
Interfund Payable	492		174		666
Retainage Payable			18,881		18,881
Claims Payable	410,348				410,348
Separation Benefit Payable	15,000				15,000
Matured Compensated Absences Payable	17,374				17,374
Notes Payable	880,000				880,000
Deferred Revenue	5,067,826	\$1,305,962	310,323	54,248	6,738,359
<b>Total Liabilities</b>	<b>7,588,685</b>	<b>1,305,962</b>	<b>362,973</b>	<b>148,900</b>	<b>9,406,520</b>
<u>Fund Balances:</u>					
Reserved for Property Taxes	277,032	84,284	16,174	3,383	380,873
Reserved for Capital Improvements	166,499				166,499
Reserved for Bus Purchase	7,092				7,092
Reserved for Encumbrances	89,584		9,572	16,509	115,665
<u>Unreserved, Reported in:</u>					
General Fund	742,128				742,128
Special Revenue Funds				186,608	186,608
Debt Service Fund		1,067,417			1,067,417
Capital Projects Fund			580,116		580,116
<b>Total Fund Balances</b>	<b>1,282,335</b>	<b>1,151,701</b>	<b>605,862</b>	<b>206,500</b>	<b>3,246,398</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,871,020</b>	<b>\$2,457,663</b>	<b>\$968,835</b>	<b>\$355,400</b>	<b>\$12,652,918</b>

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, 2006**

Total Governmental Fund Balances \$3,246,398

Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 18,216,072

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$46,207	
Property Taxes Receivable	386,723	
		432,930

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 258,454

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(63,035)	
General Obligation Bonds Payable	(15,570,360)	
Energy Conservation Loan Payable	(105,000)	
Compensated Absences Payable	(615,085)	
		(16,353,480)

Net Assets of Governmental Activities \$5,800,374

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, 2006**

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$4,978,813	\$1,016,007	\$294,863	\$52,645	\$6,342,328
Income Taxes	2,141,410				2,141,410
Intergovernmental	4,994,818	174,411	35,711	846,393	6,051,333
Interest	195,924			600	196,524
Tuition and Fees	350,347			642	350,989
Extracurricular Activities				142,594	142,594
Charges for Services				247,728	247,728
Gifts and Donations	9,000			35,407	44,407
Miscellaneous	376,205	10,028		82,413	468,646
Total Revenues	<u>13,046,517</u>	<u>1,200,446</u>	<u>330,574</u>	<u>1,408,422</u>	<u>15,985,959</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	4,838,834			140,550	4,979,384
Special	890,607			532,867	1,423,474
Support Services:					
Pupils	510,801				510,801
Instructional Staff	434,388			39,452	473,840
Board of Education	5,410				5,410
Administration	1,063,450			4,855	1,068,305
Fiscal	414,187	16,352	3,821	4,999	439,359
Business	1,352				1,352
Operation and Maintenance of Plant	1,099,081				1,099,081
Pupil Transportation	635,302			3,411	638,713
Central	47,842				47,842
Non-Instructional Services					
Extracurricular Activities	263,557			628,859	628,859
Capital Outlay			674,796		674,796
Debt Service:					
Principal Retirement		690,000			690,000
Interest and Fiscal Charges	37,070	547,911			584,981
Issuance Costs		157,398			157,398
Total Expenditures	<u>10,241,881</u>	<u>1,411,661</u>	<u>678,617</u>	<u>1,445,072</u>	<u>13,777,231</u>
Excess of Revenues Over (Under) Expenditures	<u>2,804,636</u>	<u>(211,215)</u>	<u>(348,043)</u>	<u>(36,650)</u>	<u>2,208,728</u>
<u>Other Financing Sources (Uses):</u>					
General Obligation Bonds Issued		8,780,000			8,780,000
Premium on Bonds Issued		476,401			476,401
Payment to Refunded Bond Escrow Agent		(9,473,317)			(9,473,317)
Transfers In		295,409	136	15,220	310,765
Transfers Out	(310,591)		(174)		(310,765)
Total Other Financing Sources (Uses)	<u>(310,591)</u>	<u>78,493</u>	<u>(38)</u>	<u>15,220</u>	<u>(216,916)</u>
Changes in Fund Balances	2,494,045	(132,722)	(348,081)	(21,430)	1,991,812
Fund Balances (Deficit) at Beginning of Year	(1,211,710)	1,284,423	953,943	227,930	1,254,586
Fund Balances at End of Year	<u>\$1,282,335</u>	<u>\$1,151,701</u>	<u>\$605,862</u>	<u>\$206,500</u>	<u>\$3,246,398</u>

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, 2006**

Changes in Fund Balances - Total Governmental Funds \$1,991,812

Amounts reported for governmental activities on the statement of activities are different because of the following:

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:

Capital Outlay - Nondepreciable Capital Assets	\$198,510	
Capital Outlay - Depreciable Capital Assets	170,949	
Depreciation	<u>(426,451)</u>	(56,992)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (1,580)

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

Property Taxes	(19,771)	
Income Taxes	19,295	
Intergovernmental	(115)	
Tuition and Fees	5,095	
Miscellaneous	<u>14,811</u>	19,315

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

Payment to Refunded Escrow Agent	9,473,317	
Serial Bonds	660,000	
Energy Conservation Loan	<u>30,000</u>	10,163,317

Bond proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets. (8,780,000)

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.

Accrued Interest Payable	275,897	
Annual Accretion	(87,665)	
Unamortized Premium	<u>(476,401)</u>	(288,169)

Issuance costs are reported as an expenditure when paid in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 157,398

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (214,560)

Change in Net Assets of Governmental Activities \$2,990,541

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, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$4,503,082	\$4,607,133	\$4,607,133	
Income Taxes	1,687,951	1,466,391	1,466,391	
Intergovernmental	4,758,304	4,995,537	4,994,818	(\$719)
Interest	43,064	188,064	192,624	4,560
Tuition and Fees	508,437	345,243	350,447	5,204
Gifts and Donations		9,000	9,000	
Miscellaneous	106,435	193,860	200,523	6,663
Total Revenues	<u>11,607,273</u>	<u>11,805,228</u>	<u>11,820,936</u>	<u>15,708</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	5,225,187	5,266,169	5,240,912	25,257
Special	685,210	907,866	852,716	55,150
Other		684	648	36
<b>Support Services:</b>				
Pupils	646,344	541,902	513,768	28,134
Instructional Staff	537,896	490,300	432,929	57,371
Board of Education	355,443	9,298	4,726	4,572
Administration	1,318,482	1,171,743	1,131,472	40,271
Fiscal	462,286	463,076	398,283	64,793
Business	1,986	1,986	1,900	86
Operation and Maintenance of Plant	1,257,925	1,237,841	1,189,105	48,736
Pupil Transportation	758,720	760,575	664,123	96,452
Central	56,248	72,894	47,842	25,052
Extracurricular Activities	273,292	292,868	258,465	34,403
Total Expenditures	<u>11,579,019</u>	<u>11,217,202</u>	<u>10,736,889</u>	<u>480,313</u>
Excess of Revenues Over Expenditures	<u>28,254</u>	<u>588,026</u>	<u>1,084,047</u>	<u>496,021</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	20,000	15,516	15,516	
Refund of Prior Year Receipts	(10,000)	(488)	(488)	
Advances In	23,538	23,738	23,738	
Advances Out	(40,000)	(18,923)		18,923
Transfers In		20,000	20,000	
Transfers Out	(307,070)	(310,099)	(310,099)	
Total Other Financing Sources (Uses)	<u>(313,532)</u>	<u>(270,256)</u>	<u>(251,333)</u>	<u>18,923</u>
Changes in Fund Balance	(285,278)	317,770	832,714	514,944
Fund Balance at Beginning of Year	652,401	652,401	652,401	
Prior Year Encumbrances Appropriated	202,141	202,141	202,141	
Fund Balance at End of Year	<u>\$569,264</u>	<u>\$1,172,312</u>	<u>\$1,687,256</u>	<u>\$514,944</u>

See Accompanying Notes to the Basic Financial Statements  
See Accountant's Compilation Report

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$12,171	<u>\$37,038</u>
<u>Liabilities:</u>		
Undistributed Assets		<u>\$37,038</u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	<u>\$12,171</u>	

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, 2006**

<u>Additions:</u>	
Interest	\$107
Miscellaneous	4,350
Total Additions	<u>4,457</u>
 <u>Deductions:</u>	
Non-Instructional Services	<u>5,850</u>
 Change in Net Assets	 (1,393)
 Net Assets at Beginning of Year	 <u>13,564</u>
Net Assets at End of Year	<u><u>\$12,171</u></u>

See Accompanying Notes to the Basic Financial Statements



**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 391<sup>st</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifty-seven classified employees, eighty-five certified teaching personnel, and five administrative employees who provide services to 1,313 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 seven 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, Northwest Ohio Special Educational Regional Resource Center, 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 20, 21, and 22 to the basic financial statements.

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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, 2006  
(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 general obligation bonds and long-term loans.

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, 2006  
(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, 2006  
(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, 2006, but which were levied to finance fiscal year 2007 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, 2006  
(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".

Cash and cash equivalents that were held separately with the School District's third-party administrator are recorded as "Cash and Cash Equivalents with Fiscal Agent".

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 2006 was \$195,924, which includes \$102,226 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, 2006, 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 capital improvements as well as unexpended revenues restricted for the purchase of school buses.

**J. Unamortized Issuance Costs/Premium**

On government-wide financial statements, issuance costs and bond premiums 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. Premiums are presented as an addition to the face amount of the bonds.

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

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 Loss on Advance Refunding**

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a reduction of the face amount of the new debt.

**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, 2006, there were no net assets restricted by enabling legislation.

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, capital improvements, 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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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**

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

**NOTE 4 - ACCOUNTABILITY**

At June 30, 2006, the Food Service, Education Management Information Systems, and Title IV-B special revenue funds had deficit fund balances, in the amount of \$7,479, \$33, and \$4,652, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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).
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	\$2,494,045
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	696,525
Accrued FY 2006, Not Yet Received in Cash	(1,651,209)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,722,736)
Accrued FY 2006, Not Yet Paid in Cash	1,640,367
Cash Adjustments:	
Unrecorded Activity FY 2005	2,855
Unrecorded Activity FY 2006	(353,362)
Prepaid Items	340
Debt Reallocation	(220,000)
Advances In	23,738
Transfers In	20,000
Transfers Out	492
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(98,341)
Budget Basis	\$832,714

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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.

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.

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)**

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

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, \$3,604,490 of the School District's bank balance of \$3,911,989 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.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006, 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	
Excess Costs	\$185,327
Other Governmental Funds	
Food Service	24,535
Title I	17,163
Title II-A	7,494
Total Other Governmental Funds	49,192
Total Intergovernmental Receivables	\$234,519

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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.

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 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. 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, this settlement was not received by the School District within fiscal year 2006.

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**SWANTON LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 9 - PROPERTY TAXES – (CONTINUED)**

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, 2006, 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, 2006, was \$277,032 in the General Fund, \$3,383 in the Recreation special revenue fund, \$84,284 in the Bond Retirement debt service fund, and \$16,174 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$251,451 in the General Fund, \$2,989 in the Recreation special revenue fund, \$77,067 in the Bond Retirement debt service fund, and \$16,150 in the Permanent Improvement capital projects fund.

The late settlement made by the counties for fiscal year 2006 was \$160,881 in the General Fund, \$1,136 in the Recreation special revenue fund, \$21,132 in the Bond Retirement debt service fund, and \$9,373 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 special revenue fund, \$16,318 in the Bond Retirement debt service fund, and \$7,238 in the Permanent Improvement capital projects fund.

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 2006 taxes were collected are:

	<u>2005 Second- Half Collections</u>		<u>2006 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$145,692,530	75.91%	\$157,701,230	77.62%
Industrial/Commercial	24,724,310	12.88	26,118,140	12.86
Public Utility	8,316,930	4.33	7,293,410	3.59
Tangible Personal	<u>13,192,945</u>	<u>6.88</u>	<u>12,054,698</u>	<u>5.93</u>
Total Assessed Value	<u>\$191,926,715</u>	<u>100.00%</u>	<u>\$203,167,478</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$67.78		\$68.78	

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$563,666			\$563,666
Construction in Progress	17,108	\$198,510	(\$209,610)	6,008
Total Nondepreciable Capital Assets	<u>580,774</u>	<u>198,510</u>	<u>(209,610)</u>	<u>569,674</u>
Depreciable Capital Assets				
Land Improvements	489,477			489,477
Buildings and Building Improvements	19,393,780	230,360		19,624,140
Furniture, Fixtures, and Equipment	735,335	18,999		754,334
Vehicles	1,267,735	131,200	(39,906)	1,359,029
Total Depreciable Capital Assets	<u>21,886,327</u>	<u>380,559</u>	<u>(39,906)</u>	<u>22,226,980</u>
Less Accumulated Depreciation				
Land Improvements	(194,625)	(5,574)		(200,199)
Buildings and Building Improvements	(2,860,870)	(323,874)		(3,184,744)
Furniture, Fixtures, and Equipment	(276,685)	(38,182)		(314,867)
Vehicles	(860,277)	(58,821)	38,326	(880,772)
Total Accumulated Depreciation	<u>(4,192,457)</u>	<u>(426,451)</u>	<u>38,326</u>	<u>(4,580,582)</u>
Depreciable Capital Assets, Net	<u>17,693,870</u>	<u>(45,892)</u>	<u>(1,580)</u>	<u>17,646,398</u>
Governmental Activities Capital Assets, Net	<u>\$18,274,644</u>	<u>\$152,618</u>	<u>(\$211,190)</u>	<u>\$18,216,072</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$204,060
Special	13,733
Support Services:	
Pupils	3,366
Instructional Staff	22,034
Administration	21,093
Fiscal	986
Operation and Maintenance of Plant	18,092
Pupil Transportation	58,115
Non-Instructional Services	38,937
Extracurricular Activities	46,035
Total Depreciation Expense	<u>\$426,451</u>

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 11 - INTERFUND ASSETS/LIABILITIES**

Interfund balances at June 30, 2006, consisted of the following individual fund receivables and payables:

Due to Bond Retirement Fund from:	
General Fund	\$339
Due to Permanent Improvement Fund from:	
General Fund	\$136
Due to Other Governmental Funds from:	
General Fund	\$17
Permanent Improvement Fund	174
Total Other Governmental Funds	\$191

The above balances resulted from resources improperly allocated to funds which were not repaid at fiscal year end. All amounts are expected to be repaid within one year.

**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 2006, 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	38,878,110
Vehicle Liability	1,000,000
Uninsured/Underinsured Motorists	100,000

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

For fiscal year 2006, 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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 12 - RISK MANAGEMENT – (CONTINUED)**

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 perform its obligations in accordance with the terms of the agreement.

The School District offers medical, drug, and dental insurance to all employees through a program administered by OME-RESA Health Benefits. The School District purchased stop loss insurance for claims in excess of \$250,000 per year. 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, 2006, were estimated by the administrator at \$410,348.

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
2006	\$576,248	\$432,214	\$598,114	\$410,348
2005	781,858	627,440	833,050	576,248

**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.

**SWANTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)**

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, 2006, 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, 2006, 2005, and 2004, was \$591,256, \$589,140, and \$644,878, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$1,466 made by the School District and \$3,017 made by plan members.

**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.

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(Continued)**

**NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)**

For the fiscal year ended June 30, 2006, 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 2006 was 14 percent of annual covered payroll; 10.58 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, 2006, 2005, and 2004, was \$153,881, \$147,577, and \$128,211, respectively; 43 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

**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, 2006, 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 2006, 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 \$45,594.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$78,831 for fiscal year 2006.

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(Continued)**

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (CONTINUED)**

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, 2006, were \$158,751,207. 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, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will not be sufficient, 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 59,492 participants currently receiving health care benefits.

**NOTE 15 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty 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 and fifty-eight and three quarters days for certified employees. In addition, each certified 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 ended in June 2006. At June 30, 2006, there was no liability for early retirement incentive.

**C. Separation Benefit**

For STRS employees, a cash payment of \$15,000 is made 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 payment for tax purposes. The employee may choose to defer the payment until January of the following calendar year or take the payment at the time of retirement. To qualify, the employee must have at least fifteen years of service with the School District and must meet all eligibility requirements for retirement under STRS. Continuation of the program is reviewed with each negotiated agreement. The current enrollment period ends in August 2007.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 16 - NOTES PAYABLE**

The School District's notes payable activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Rate</u>	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities					
Tax Anticipation Notes Payable	3.37%	\$1,100,000		\$220,000	\$880,000

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, 2006, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$880,000</u>	<u>\$74,140</u>	<u>\$954,140</u>

**NOTE 17 - LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
<u>General Obligation Bonds</u>					
FY01 School Improvement Bonds					
Serial Bonds 3-4.4%	\$3,315,000		\$660,000	\$2,655,000	\$740,000
Term Bonds 4.9-5.25%	10,115,000		8,780,000	1,335,000	
Capital Appreciation Bonds 4.9-5%	524,992			524,992	
Accretion of Capital Appreciation Bonds	188,112	\$56,275		244,387	
FY05 School Improvement Bonds					
Serial Bonds 2.5-3.25%	880,000			880,000	30,000
Term Bonds 4-4.25%	1,020,000			1,020,000	
Capital Appreciation Bonds 3.83-4.07%	99,998			99,998	

(continued)

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)**

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
<u>General Obligation Bonds (continued)</u>					
<u>FY05 School Improvement Bonds (continued)</u>					
Accretion of Capital					
Appreciation					
Bonds	\$8,796	\$19,620		\$28,416	
Premium	207,713			207,713	
<u>FY06 School Improvement Bonds</u>					
Serial Bonds 3.75-4.2%		8,405,003		8,405,003	\$205,000
Capital Appreciation Bonds 4.4-4.7%		374,997		374,997	
Accretion of Capital					
Appreciation					
Bonds		11,770		11,770	
Premium		476,401		476,401	
Accounting Loss		(693,317)		(693,317)	
Total General Obligation Bonds	16,359,611	8,650,749	\$9,440,000	15,570,360	975,000
<u>FY99 Energy Conservation Loan</u>					
4.6%	135,000		30,000	105,000	35,000
Compensated Absences Payable	400,525	323,668	109,108	615,085	51,215
Total Governmental Activities Long -Term Obligations	<u>\$16,895,136</u>	<u>\$8,974,417</u>	<u>\$9,579,108</u>	<u>\$16,290,445</u>	<u>\$1,061,215</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. During fiscal year 2006, a portion of the term bonds, in the amount of \$8,780,000, was advance refunded

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FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**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

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 2006, \$56,275 was accreted for a total bond value of \$769,379 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

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**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:

<u>Year</u>	<u>Amount</u>
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:

<u>Year</u>	<u>Amount</u>
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 2006, \$19,620 was accreted for a total bond value of \$128,414 at fiscal year end.

FY06 School Improvement Bonds - On March 28, 2006, the School District issued bonds, in the amount of \$8,780,000, to partially refund bonds previously issued in fiscal year 2001 for buildings and other improvements. The refunding bond issue included serial and capital appreciation bonds, in the amount of \$8,405,003 and \$374,997, respectively. The bonds were issued at a premium of \$476,401. The bonds were issued for a nineteen year period, with final maturity during fiscal year 2026. The bonds will be retired through the Bond Retirement debt service fund.



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(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)**

The net proceeds of the refunding bond issue, in the amount of \$9,099,000, plus \$374,317 contributed by the School District were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the 2001 School Improvement Bonds. As a result, \$8,780,000 of the 2001 School Improvement Bonds are considered to be defeased and the liability for those bonds has been removed from the School District's financial statements. At June 30, 2006, \$8,780,000 of this debt was still outstanding.

Although the refunding will result in the recognition of an accounting loss of \$693,317, the School District in effect decreased its aggregated debt service payments by \$1,992,632 over the next fifteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$510,571.

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, 2015, 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 2017 and 2018. The maturity amount of the bonds is \$1,410,000. For fiscal year 2006, \$11,770 was accreted for a total bond value of \$386,767 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 \$1,252,713 with an unvoted debt margin of \$183,863 at June 30, 2006.

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**NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)**

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, were as follows:

General Obligation Bonds					
Fiscal Year Ending June 30,	Serial	Term	Capital Appreciation	Interest	Total
2007	\$975,000			\$561,633	\$1,536,633
2008	895,000			526,542	1,421,542
2009	940,000			492,285	1,432,285
2010	955,000			455,845	1,410,845
2011	1,005,000			417,547	1,422,547
2012-2016	1,230,000	\$1,430,000	\$624,990	2,819,685	6,104,675
2017-2021	2,220,000	435,000	374,997	2,254,137	5,284,134
2022-2026	3,720,003	490,000		404,159	4,614,162
Total	<u>\$11,940,003</u>	<u>\$2,355,000</u>	<u>\$999,987</u>	<u>\$7,931,833</u>	<u>\$23,226,823</u>

Energy Conservation Loan			
Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$35,000	\$4,025	\$39,025
2008	35,000	2,415	37,415
2009	35,000	805	35,805
Total	<u>\$105,000</u>	<u>\$7,245</u>	<u>\$112,245</u>

**NOTE 18 - 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.

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(Continued)**

**NOTE 18 - SET ASIDES – (CONTINUED)**

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2005	\$94,685	\$0
Current Year Set Aside Requirement	191,135	191,135
Current Year Offsets	(271,898)	0
Qualifying Expenditures	(141,160)	(24,636)
Balance June 30, 2006	<u>(\$127,238)</u>	<u>\$166,499</u>

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

**NOTE 19 - INTERFUND TRANSFERS**

During fiscal year 2006, the General Fund transferred \$339 to the Bond Retirement debt service fund, \$136 to the Permanent Improvement capital projects fund, and \$17 to other governmental funds to reallocate taxes improperly recorded. The General Fund also transferred \$15,029 to other governmental funds to subsidize operations and \$295,070 to the Bond Retirement debt service fund as debt payments came due.

The Permanent Improvement capital projects fund transferred \$174 to other governmental funds to reallocate taxes improperly recorded.

**NOTE 20 - 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 2006, the School District paid \$47,815 to NWOCA for various services. Financial information can be obtained from Northwest Ohio Computer Association, 22-900 State Route 34, Archbold, Ohio 43502.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)**

**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, 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.

**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 Penta Career Center, at 30095 Oregon Road, Perrysburg, Ohio 43551.

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**NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)**

**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.

**G. Northwest Ohio Special Education Regional Resource Center**

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**NOTE 21 - 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-Schuett Insurance Agency, Inc., and a 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.

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(Continued)**

**NOTE 21 - INSURANCE POOLS – (CONTINUED)**

**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 22 - 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 23 - 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, 2006.

**B. Litigation**

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District Board of Education is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.



# Mary Taylor, CPA

Auditor of State

## 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 North Main Street  
Swanton, Ohio 43588-1032

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, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 19, 2007. 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 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 April 19, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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### **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 April 19, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 19, 2007





Mary Taylor, CPA  
Auditor of State

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 15, 2007