



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Hopewell-Loudon Local School District
Seneca County
290 North County Road 7
P.O. Box 440
Bascom, Ohio 44809-9999

To the Board of Education:

We have audited the accompanying financial statements of Hopewell-Loudon Local School District (the District) as of and for the year ended June 30, 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its financial report in accordance with generally accepted accounting principles. However, as described in Note 1, the District prepares its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The District did not disclose the actuarially determined liabilities for its self insurance activities. In our opinion, disclosure of this information is required by Auditor of State Bulletin 2001-005.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

October 30, 2002

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2002

Cash and Investments	<u><u>\$2,444,314</u></u>
Governmental Fund Types:	
General Fund	\$1,952,678
Special Revenue Funds	119,542
Debt Service Fund	236,797
Capital Projects Funds	12,832
Proprietary Fund Types:	
Enterprise Funds	10,707
Internal Service Fund	31,382
Fiduciary Fund Types:	
Expendable Trust Funds	34,642
Agency Funds	<u>45,734</u>
Total	<u><u>\$2,444,314</u></u>

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Cash Receipts		
Local Sources:		
Taxes	\$2,255,613	
Tuition	487,625	
Earnings on Investment	52,948	
Miscellaneous Receipts	12,686	\$15,449
Extracurricular Activities		153,657
Classroom Materials and Fees	38,639	
Intergovernmental - State	2,410,436	59,552
Intergovernmental - Federal		206,264
Total Cash Receipts	<u>5,257,947</u>	<u>434,922</u>
Cash Disbursements		
Instruction:		
Regular	2,669,518	70,257
Special	247,789	162,375
Vocational Education	53,423	
Adult/Continuing		524
Other		1,187
Support Services:		
Pupils	295,065	13,860
Instructional Staff	78,860	10,710
Board of Education	17,598	
Administration	419,684	2,814
Fiscal	211,093	
Operation and Maintenance - Plant	517,766	2,151
Pupil Transportation	221,722	9,776
Community Service	27,660	
Extracurricular Activities	157,296	144,485
Interest and Fiscal Charges		
Total Cash Disbursements	<u>4,917,474</u>	<u>418,139</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>340,473</u>	<u>16,783</u>
Other Financing Sources (Uses)		
Advance-in	33,470	4,359
Transfer-out		
Advance-out	(4,359)	(33,094)
Total Other Financing Sources (Uses)	<u>29,111</u>	<u>(28,735)</u>
Excess of Cash Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	369,584	(11,952)
Fund Cash Balances at July 1, 2001	1,583,094	131,494
Fund Cash Balances at June 30, 2002	<u>\$1,952,678</u>	<u>\$119,542</u>

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

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$119,478			\$2,375,091
			\$487,625
		\$708	53,656
		8,536	36,671
		385	154,042
			38,639
11,710	\$12,832		2,494,530
			206,264
<u>131,188</u>	<u>12,832</u>	<u>9,629</u>	<u>5,846,518</u>
			2,739,775
			410,164
			53,423
			524
			1,187
			308,925
	7,383		96,953
			17,598
		500	422,998
3,072			214,165
			519,917
			231,498
			27,660
		2,913	304,694
<u>130,250</u>			<u>130,250</u>
<u>133,322</u>	<u>7,383</u>	<u>3,413</u>	<u>5,479,731</u>
<u>(2,134)</u>	<u>5,449</u>	<u>6,216</u>	<u>366,787</u>
			37,829
			(37,453)
			376
(2,134)	5,449	6,216	367,163
<u>238,931</u>	<u>7,383</u>	<u>28,426</u>	<u>1,989,328</u>
<u>\$236,797</u>	<u>\$12,832</u>	<u>\$34,642</u>	<u>\$2,356,491</u>

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Receipts				
Tuition	\$650			\$650
Extracurricular Activities	965		\$150,014	150,979
Food Service	178,194			178,194
Classroom Materials and Fees	4,753			4,753
	<u>184,562</u>		<u>150,014</u>	<u>334,576</u>
Operating Expenses				
Employees Salaries and Wages	87,750		169	87,919
Employees Retirement and Insurance	30,210			30,210
Purchased Services	2,059	\$50,446	17,663	70,168
Supplies and Materials	98,180		104,357	202,537
Capital Outlay	3,969		500	4,469
Other Objects	562		35,115	35,677
	<u>222,730</u>	<u>50,446</u>	<u>157,804</u>	<u>430,980</u>
Excess of Operating Receipts Over (Under) Operating Disbursements	<u>(38,168)</u>	<u>(50,446)</u>	<u>(7,790)</u>	<u>(96,404)</u>
Nonoperating Receipts				
Earnings on Investments		670		670
State Sources	1,053			1,053
Federal Sources	39,860			39,860
Miscellaneous	442	56,384		56,826
	<u>41,355</u>	<u>57,054</u>		<u>98,409</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	3,187	6,608	(7,790)	2,005
Advance-in				
Advance-out			(376)	(376)
Net Receipts Over (Under) Disbursements	3,187	6,608	(8,166)	1,629
Fund Cash Balances at July 1, 2001	<u>7,520</u>	<u>24,774</u>	<u>53,900</u>	<u>86,194</u>
Fund Cash Balances at June 30, 2002	<u>\$10,707</u>	<u>\$31,382</u>	<u>\$45,734</u>	<u>\$87,823</u>

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002**

	Budget	Actual	Variance: Favorable (Unfavorable)
Governmental Fund Types:			
General Fund	\$5,075,846	\$5,257,947	\$182,101
Special Revenue Funds	571,085	434,922	(136,163)
Debt Service	135,000	131,188	(3,812)
Capital Projects Funds	20,383	12,832	(7,551)
Proprietary Fund Types:			
Enterprise Funds	243,500	225,917	(17,583)
Internal Service Fund	65,000	57,054	(7,946)
Fiduciary Fund Types:			
Trust and Agency Funds	213,183	159,643	(53,540)
Total	\$6,323,997	\$6,279,503	(\$44,494)

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Prior Year Carryover Appropriations	2002 Appropriations	Total
Governmental Fund Types:			
General Fund	\$98,595	\$5,229,957	\$5,328,552
Special Revenue Funds	14,667	353,270	367,937
Debt Fund		133,850	133,850
Capital Projects Funds	2,125	2,383	4,508
Proprietary Fund Types:			
Enterprise Funds	119	216,190	216,309
Internal Service Funds		52,350	52,350
Fiduciary Fund Types:			
Trust and Agency Funds		170,113	170,113
Total	\$115,506	\$6,158,113	\$6,273,619

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

<u>Actual 2002 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/02</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$4,917,474	\$65,393	\$4,982,867	\$345,685
418,139	30,309	448,448	(80,511)
133,322		133,322	528
7,383		7,383	(2,875)
222,730	88	222,818	(6,509)
50,446	5,964	56,410	(4,060)
161,217	50	161,267	8,846
<u>\$5,910,711</u>	<u>\$101,804</u>	<u>\$6,012,515</u>	<u>\$261,104</u>

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Hopewell-Loudon Local School District (the District) is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates one instructional facility and provides educational services to students from grades 1 through 12.

The District believes these financial statements present all activities for which the District is accountable.

B. Funds Reported

1. General Fund

The general fund is the operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

2. Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources (other than capital projects or trust funds) that are legally restricted to expenditures for specified purposes.

3. Debt Service Funds

Debt service funds account for financial resources to be used for the repayment of debt issued by the district.

4. Capital Projects Funds

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities.

5. Enterprise Funds

Enterprise funds account for operations which are financed and operated in a manner similar to private business enterprises and for which the District intends to support a material portion of the operating costs with user charges.

6. Internal Service Funds

Internal service funds account for operations of the self insurance vision and dental program.

7. Expendable Trust Funds

Expendable trust funds account for assets held in a trustee capacity.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. Agency Funds

Agency funds are used to account for custodial funds held by the District acting as the agent for another government, organization, individual, or fund.

C. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its financial statements in accordance with generally accepted accounting principles, the District chooses to prepare its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

These statements include adequate disclosures of material matters, as formerly prescribed or permitted by the Auditor of State.

D. Budgetary Process

1. Budget

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

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

2. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. Estimated Resources

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

Estimated receipts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001 and do not include the unencumbered fund balances as of July 1, 2001. However, those fund balances are available for appropriations.

4. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission.

5. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. In the budgetary financial statements, encumbrances are included in budgetary expenditures. The budgetary fund balance is cash minus outstanding encumbrances.

6. Lapsing of Appropriations

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

State Statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 2002, the District's investments were limited to certificates of deposit, STAR Ohio, and repurchase agreements. During the fiscal year, all investments of the District had a maturity of two years or less.

The carrying amount of cash and investments at June 30, 2002 was as follows:

	<u>2002</u>
Certificates of deposit	\$200,000
STAR Ohio	1,887,103
Repurchase agreement	<u>357,211</u>
Total investments	<u>2,244,314</u>
Total deposits and investments	<u><u>\$2,444,314</u></u>

The following information classifies deposits and investments by categories of risk.

A. Deposits

At year-end, the carrying amount of the District's deposits was \$200,000 as shown above and the bank balance was \$223,548. The bank balance was covered by federal depository insurance, by eligible securities pledged by the financial institution as security for repayment, and by pool collateral deposited with the financial institution.

B. Investments

The District's investments are categorized below to give an indication of the level of risk assumed at fiscal year end. Investments are usually categorized into three categories of credit risk:

- Category 1: Securities held by the District or its agent in the District's name.
- Category 2: Securities held by the counter party's trust department or agent in the District's name.
- Category 3: Securities held by the counter party, or by its trust department or agent but not in the District's name.

The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$357,211	\$357,211	\$357,211
STAR Ohio		1,887,103	1,887,103
Total		\$2,244,314	\$2,244,314

3. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, are levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Seneca County. The Seneca County Treasurer collects property taxes on behalf of the District. The Seneca County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

4. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2002, plan members contributed 9 percent of their annual-covered salary and the District contributed 14 percent. The District has paid all contributions required through June 30, 2002.

B. State Teachers Retirement System

The 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2002, members of STRS contributed 9.3 percent of their wages to the STRS. The District contributed an amount equal to 14 percent of their wages. The District has paid all contributions required through June 30, 2002.

5. RISK MANAGEMENT

A. The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

B. Employee Group Dental and Vision Insurance

The District was self insured for dental and vision benefits to employees. The District established a Self Insurance internal service fund to account for and finance the dental and vision benefits program. Under the program, the Self Insurance fund provides coverage up to a maximum of \$1000 per individual, per year for dental insurance and various limits of coverage per individual, per year for vision insurance based on the service provided. The District reimburses the individuals for dental and vision services received up to their maximum limits.

No comparison of Self Insurance Fund cash and investments to the actuarially measured liability is provided.

6. PUBLIC ENTITY RISK POOL

Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. STATE SCHOOL FUNDING DECISION

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirements that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

8. COMPLIANCE

Contrary to Ohio law, as of June 30, 2002, the District did not obtain amendments to reduce/increase estimated resources for the following funds:

<u>Name of Fund</u>	<u>Amount</u>
General Fund	\$182,101
Principal Fund	(16,498)
Jennings Grants Fund	(28,685)
Athletics Fund	(32,691)
Summer School Fund	(14,258)
Cafeteria Fund	(14,928)
Trust Fund	(27,766)

Contrary to Ohio law, during the year ended June 30, 2002, the District did not consistently certify the availability of funds prior to a commitment being incurred.

The District was unable to provide a comparison of the Self Insurance Fund cash and investments to the actuarially measured liability for the year ending June 30, 2002.

Annual report documenting the reduction in energy consumption and cost savings attributed to the energy conservation measures HB 264-1985 program was not prepared.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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. The amount set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Acquisitions	Budget Stabilization
Set-aside Cash balance as of June 30, 2001			\$92,894
Current Year Set-aside Requirement	\$114,820	\$114,820	
Current Year Offsets			
Qualifying Disbursements	(156,555)	(199,458)	
Total	(\$41,735)	(\$84,638)	\$92,894
Cash Balance Carried Forward to Fiscal Year 2003	(\$41,735)	(\$84,638)	\$92,894

Although the District has qualifying disbursements during the year that reduced the set-aside requirements below zero, only the amount for textbooks may be used to reduce the set-aside requirements of future years.

Senate Bill (S.B.) 345, 123rd General Assembly eliminated the requirement for the Budget Stabilization set-aside. S.B. 345 places special restrictions of the use of Bureau of Workers Compensation (BWC) rebate money remaining in the Budget Stabilization Reserve as of April 10, 2001, which is \$92,894 at June 30, 2002.

10. LONG-TERM OBLIGATIONS

The District had the following long term debt obligations at June 30, 2001:

FY 1987 School Building Addition Bonds

On July 1, 1986, the District issued \$1,800,000 in voted general obligation bonds for constructing a building addition. The bonds were issued under the authority of Ohio Revised Code section 133.09 for a twenty-two year period, with final maturity in fiscal year 2009. The bonds are being retired through the debt service fund.

FY 2001 Energy Conservation Loan

On November 1, 2000, the District obtained a loan, in the amount of \$200,000, from Fifth Third Bank to provide energy conservation measures for the District. The loan was issued under the authority of H.B.264 amended, Ohio Revised Code section 133.06G and 3313.372-373 for a ten year period, with final maturity in fiscal year 2011.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

The following is a description of the District's general obligation debt outstanding as of June 30, 2001:

	Interest Rate	Outstanding 7/1/01	Retired	Outstanding 6/30/02
G.O. Bonds Payable	8.25%	\$640,000	(\$80,000)	\$560,000
Energy Conservation Loan	6.65%	192,800	(15,028)	177,772
Total		<u>\$832,800</u>	<u>(\$95,028)</u>	<u>\$737,772</u>

The following is a summary of the District's future annual debt service requirements to maturity for the general obligation debt:

Fiscal Year Ending	Principal	Interest	Total
2003	96,067	54,491	\$150,558
2004	97,151	46,807	\$143,958
2005	98,364	38,994	\$137,358
2006	99,634	31,124	\$130,758
2007	100,992	231,667	\$332,659
2008-2011	245,562	24,440	\$270,002
Total	<u>\$737,770</u>	<u>\$427,523</u>	<u>\$1,165,293</u>



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

Hopewell-Loudon Local School District
Seneca County
290 North County Road 7
P.O. Box 440
Bascom, Ohio 44809-9999

To the Board of Education:

We have audited the financial statements of Hopewell-Loudon Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 30, 2002, in which we noted that the District prepares its financial report on a basis of accounting formally prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles, and was qualified due to the District not disclosing the actuarially determined liabilities for its self insurance activities as required by Auditor of State Bulletin 2001-005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10574-001 through 2002-10574-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated October 30, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 30, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

Jim Petro
Auditor of State

October 30, 2002

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

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

FINDING NUMBER 2002-10574-001

Finding Repaid Under Audit

The Hopewell Loudon Education Association master agreement Article IX, section A, states that teachers hired before 6/30/91 using two or fewer school days of sick leave in a school year shall be granted one day per year of bonus severance pay which shall be in addition to the severance pay provided by this contract up to a total of 81 paid days. Severance pay of 82 days was paid to a retiring teacher.

	Days		Rate		
Amount Paid	82	X	261.65	=	\$21,455.30
Maximum Allowed	81	X	261.65	=	21,193.65
Amount Overpaid					\$261.65

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money that has been illegally expended is hereby issued against Veronica Reinhart, Treasurer and Roma King, jointly and severally, in the amount of two hundred and sixty one dollars and sixty five cents (\$261.65) and in favor of the General Fund.

The finding was repaid during the audit in the amount of two hundred and sixty one dollars and sixty five cents on October 3, 2002.

FINDING NUMBER 2002-10574-002

Noncompliance Citation

Ohio Administrative Code § 117-2-03(B) requires the School District to report on the generally accepted accounting principles basis of accounting. The District presented its financial statements on the cash basis. Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

FINDING NUMBER 2002-10574-003

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2002-10574-003
 (Continued)**

This section also provides two "exceptions" to the above requirement:

- a. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- b. If the amount involved is less than \$1000, the fiscal officer may authorize it to be paid without the affirmation of the Board, if such expenditure is otherwise valid.

Ten percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. To improve controls over disbursements, we recommend that all school disbursements receive certification of the fiscal officer that the funds are or will be available.

FINDING NUMBER 2002-10574-004

Noncompliance Citation

Ohio Revised Code § 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

As of June 30, 2002 the District should have received a reduced/increased amended certificate for the following funds:

Fund	Amount
General	\$182,101
Principal	(16,498)
Jennings Grants	(28,685)
Athletics	(32,691)
Summer School	(14,258)
Cafeteria	(14,928)
Trust	(27,766)

As of June 30, 2002, fifteen other funds also had such variances in smaller relative amounts. To avoid over appropriating, we recommend the District obtain reduced and increased amended certificates when required.

FINDING NUMBER 2002-10574-005

Noncompliance Citation

Ohio Revised Code § 9.833 requires individual self insured governments to calculate amounts required to cover dental and vision care benefits liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year-end, reflecting those reserves and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles.

The District did not calculate amounts covering health care benefit liabilities and did not prepare a report reflecting those reserves as well as the disbursements made to pay self insurance claims, legal and consultant costs. The District also did not disclose this information in the notes to the financial statements.

FINDING NUMBER 2002-10574-006

Noncompliance Citation

Ohio Energy Conservation Financing Program (HB 264-1985) includes a debt covenant requiring the District to prepare and maintain an annual report documenting the reduction in energy consumption and cost savings attributed to the above program. This report must be reviewed and certified by an independent Ohio Registered Architect or Engineer.

The District failed to prepare the aforementioned annual report.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10574-001	OAC 117-2-03(B) District did not report in GAAP basis	No	Not Corrected. Reissued as Finding 2002-10547-002
2001-10574-002	ORC § 5705.41(D) – Failure of fiscal officer to certify expenditures.	No	Not Corrected. Reissued as Finding 2002-10547-003.
2001-10574-003	ORC § 5705.36 – Failure to increase or decrease estimated resources.	No	Not Corrected. Reissued as Finding 2002-10547-004
2001-10574-004	ORC § 149.351 – Destruction of records	Yes	Corrected
2001-10574-005	ORC § 9.833 – Failure to calculate care benefits liabilities and annual report.	No	Not Corrected. Reissued as Finding 2002-10547-005



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HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT

SENECA 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
DECEMBER 10, 2002**