



**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Dalton Local School District
Wayne County
P.O. Box 514
Dalton, Ohio 44618

To the Board of Education:

We have audited the accompanying financial statements of Dalton Local School District, Wayne County, Ohio, (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 Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Dalton Local School District, Wayne County as of June 30, 2002, and its combined cash receipts and disbursements 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 November 20, 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.

We performed our audit to form an opinion on the financial statements of the District, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities 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", written in a cursive style.

Jim Petro
Auditor of State

November 20, 2002

**DALTON LOCAL SCHOOL DISTRICT
WAYNE 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**

	Governmental Fund Types			Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
CASH RECEIPTS					
Taxes	\$2,602,268		\$177,328		\$2,779,596
Intergovernmental	2,990,727	\$515,956	33,184		3,539,867
Tuition	8,255				8,255
Investment Earnings	110,197		3,783		113,980
Extracurricular Activities		181,887			181,887
Classroom Materials and Fees	2,776				2,776
Miscellaneous	34,459	14,473			48,932
Total Cash Receipts	5,748,682	712,316	214,295		6,675,293
CASH DISBURSEMENTS					
Instruction:					
Regular	2,837,290	109,008			2,946,298
Special	275,733	191,412			467,145
Vocational Education	110,381				110,381
Other	14,337				14,337
Support Services:					
Pupils	159,131	111,890		1,000	272,021
Instructional Staff	427,923	39,940	14,970		482,833
Board of Education	17,147				17,147
School Administration	574,468	7,435			581,903
Fiscal	225,357				225,357
Business	18				18
Operations and Maintenance	704,834	2,000			706,834
Student Transportation	307,986	670			308,656
Support Services - Central	68,201	5,985			74,186
Non-Instructional Services:					
Community Services		189,857			189,857
Extracurricular Activities:					
Academic and Subject Oriented	15,771				15,771
Sports Oriented	174,939	106,376			281,315
Co-Curricular	16,885				16,885
Facilities Acquisition and Construction Services:					
Site Improvement	70		282,308		282,378
Total Cash Disbursements	5,930,471	764,573	297,278	1,000	6,993,322
Total Cash Receipts Over/(Under) Cash Disbursements	(181,789)	(52,257)	(82,983)	(1,000)	(318,029)
Other Financing Sources (Uses)					
Transfers-In		5,519			5,519
Advances-In	131,775	61,519	3,270		196,564
Advances-Out	(64,790)	(5,654)			(70,444)
Transfers-Out	(174,748)				(174,748)
Total Other Financing Sources (Uses)	(107,763)	61,384	3,270		(43,109)
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(289,552)	9,127	(79,713)	(1,000)	(361,138)
Fund Cash Balances, July 1, 2001	1,927,568	186,365	92,163	1,000	2,207,096
Fund Cash Balances, June 30, 2002	\$1,638,016	\$195,492	\$12,450	\$0	1,845,958
Reserves for Encumbrances	\$133,254	\$70,457	\$12,450	\$0	\$216,161

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

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**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**

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Agency	(Memorandum Only)
OPERATING CASH RECEIPTS				
Food Service	\$138,188			\$138,188
Extracurricular Activities			\$112,392	112,392
Total Operating Cash Receipts	138,188		112,392	250,580
OPERATING CASH DISBURSEMENTS				
Personal Services-Salaries	114,297			114,297
Employees' Retirement and Insurance	33,263	35,063		68,326
Supplies and Materials	68,210		6,589	74,799
Other			107,083	107,083
Total Operating Cash Disbursements	215,770	35,063	113,672	364,505
Operating Loss	(77,582)	(35,063)	(1,280)	(113,925)
NONOPERATING CASH RECEIPTS				
Miscellaneous	181	33,854		34,035
Intergovernmental	32,832			32,832
Total Nonoperating Cash Receipts	33,013	33,854		66,867
Excess of Cash Receipts (Under) Cash Disbursements	(44,569)	(1,209)	(1,280)	(47,058)
Transfers-In	169,725			169,725
Transfers-Out	(496)			(496)
Advances-Out	(126,120)			(126,120)
Net Cash Receipts (Under) Cash Disbursements	(1,460)	(1,209)	(1,280)	(3,949)
Fund Cash Balances, July 1, 2001	1,460	22,688	58,424	82,572
Fund Cash Balances, June 30, 2002	\$0	\$21,479	\$57,144	\$78,623
Reserves for Encumbrances	\$0	\$0	\$21,413	\$21,413

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

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Dalton Local School District, Wayne County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education, and is responsible for providing public education to residents of the District.

Average daily membership as of October 1, 2001 was 1,008. The District employed roughly 77 certificated employees and 45 non-certificated employees at that date.

The District's management believes the financial statements included in this report represent all of the funds over which the District has the ability to exercise direct operating control.

B. Reporting Entity

The District is associated with a jointly governed organization and a public entity risk pool. These organizations are the Tri-County Computer Services Association (TCCSA) and the Wayne County Schools Council for Health Care Benefit Program. These organizations are presented in Notes 12 and 13.

C. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. 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 they are 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).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

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 has reported this matter to the Ohio Department of Education.

D. Cash and Investments

Certificates of deposit, U.S. Government Agency Obligations, and Federated Ultra Short Bond Funds are valued at cost. The Black Rock GNMA mutual fund is also recorded at cost.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the specific recording of receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of fund are as follows:

1. General Fund

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

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are legally restricted to expenditure for specific purposes.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

4. Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

5. Internal Service Funds

These funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements.

Agency Funds are used to account for assets held by the District as an agent for individuals, private organizations, other governmental units, and/or other funds.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. Budgeted receipts as shown in Note 3 do not include July 1, 2002, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

A summary of 2002 budgetary activity appears in Note 3.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

I. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

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 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 had 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 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 accounts, including passbook accounts.

Protection of the 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 money deposited with the institution.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Interim monies may 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 or interest by the United States;
2. Bonds, noted, 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 30 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); and,
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in an amount not to exceed 25 percent of the interim moneys available for investment at any one time.

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

Deposits: At June 30, 2002, the carrying amount of the District's deposits was \$140,905 and the bank balance was \$317,571. Deposits were either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments

The District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

2002	Category 3	Carrying Value
U.S. Government Agency Obligations	\$160,310	\$160,310
Federated Ultra Short Bond Fund	<u>399,905</u>	<u>399,905</u>
Total	\$560,215	560,215
Black Rock GNMA Mutual Fund		1,094,599
Star Ohio	<u> </u>	<u>128,862</u>
Total	<u>\$560,215</u>	<u>\$1,783,676</u>

Investments in STAR Ohio and Black Rock GNMA Mutual Funds are not categorized investments because they are not evidenced by securities that exist in a physical or book entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2002 follows:

Fund Type	2002 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$6,000,152	\$5,880,457	(\$119,695)
Special Revenue	829,875	779,354	(\$50,521)
Capital Projects	307,375	217,565	(\$89,810)
Enterprise	352,386	340,926	(\$11,460)
Internal Service	35,695	33,854	(\$1,841)
Fiduciary	<u>127,319</u>	<u>112,392</u>	<u>(\$14,927)</u>
Total	<u>\$7,652,802</u>	<u>\$7,364,548</u>	<u>(\$288,254)</u>

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$6,170,009	\$6,303,263	(\$133,254)
Special Revenue	768,488	840,684	(72,196)
Capital Projects	299,016	309,728	(10,712)
Enterprise	342,386	342,386	0
Internal Service	35,063	35,063	0
Fiduciary	114,672	136,085	(21,413)
Total	\$7,729,634	\$7,967,209	(\$237,575)

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The county Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 2002.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. 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 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the tax (calendar) year 2002 was \$47.70 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$26.12 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$31.17 per \$1,000 of assessed valuation for all other real property.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) year 2002 was \$47.70 per \$1,000 of assessed valuation.

The Wayne County Treasurer collects property tax on behalf of all taxing districts within the county. The Wayne County Auditor periodically remits to the taxing districts their portions of the taxes collected.

5. INSURANCE

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 100% coinsured.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

6. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement plan. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll. Contribution rates are established by the STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$473,749, \$478,245, and \$432,086, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll. The contribution requirements of plan members and employer are established and may be amended, up to a statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$167,616, \$161,522, and \$149,038, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

7. POSTEMPLOYMENT BENEFITS

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

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

7. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over much, in any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs 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 the fiscal year ended June 30, 2002, the STRS Board allocated employer contribution equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$152,275 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001 net health care costs by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For School Employees Retirement System (SERS), coverage is made available to service retirees with 10 or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefit, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from the prior year. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the District, the amount of employer contributions used to fund health care including the surcharge equaled \$95,499.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

8. HEALTH INSURANCE

The District participates in the Wayne County Schools Council Health Care Benefit Program, a shared risk pool (Note 13) to provide employee medical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District provides dental insurance directly with a private carrier.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

9. CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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 District at June 30, 2002.

10. SET-ASIDES

The Dalton Local School District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside for budget stabilization.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2001	\$0	\$0	\$31,891
Current Year Set-Aside Requirement	121,387	121,387	0
Current Year Offsets	0	(189,500)	0
Qualifying Disbursements	(45,095)	0	0
Totals	<u>\$76,292</u>	<u>(\$68,113)</u>	<u>\$31,891</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>	<u>\$31,891</u>
Set-Aside Reserve Balance as of June 30, 2002	<u>\$76,292</u>	<u>\$0</u>	<u>\$31,891</u>

The School District had a reserve balance of \$76,292 in the textbook set-aside at year end. Although, the District had current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years. The budget reserve balance was \$31,891 which represents the Bureau of Workers' Compensation refunds received prior to April 10, 2001.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

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

12. JOINTLY GOVERNED ORGANIZATION

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the treasurer at the Tri-County Educational Service Center which serves as the fiscal agent located in Wooster, Ohio. During the year ended June 30, 2002, the District paid approximately \$83,326 to TCCSA for basic service charges.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

13. PUBLIC ENTITY RISK POOL

The Wayne County Schools Council Health Care Benefit Program is a shared risk pool created pursuant to state statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually superintendent, treasurer or executive member of governing body). The Council elects officers to serve on the Board of Directors. The assembly exercises control over the operation of the Council. Council revenues are generated from charges for services received from participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	Not Available	93.778	\$2,890		\$2,890	
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	Not Available	10.550		\$16,672		\$16,962
National School Lunch Program	Not Available	10.555	31,778		31,778	
Total United States Department of Agriculture - Child Nutrition Cluster			31,778	16,672	31,778	16,962
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	050542 6B-SF 20002 P	84.027	34,406		34,032	
Title I Grants to Local Educational Agencies	050542 C1-S1 2001 050542 C1-S1 2002	84.010	25,672 165,841		27,072 164,858	
Total Title I Grants to Local Educational Agencies			191,513		191,930	
Eisenhower Professional Development State Grants	050542 MS-S1-2001 050542 MS-S1-2002	84.281	5,800		3,572 1,728	
Total Eisenhower Professional Development State Grants			5,800		5,300	
Innovative Educational Program Strategies	050542 C2-S1 2000 050542 C2-S1 2001 050542 C2-S1 2002 050542 C2-S1 99C	84.298	1,743 4,618 2,079		3,022 5,437 2,793 1,086	
Total Innovative Education Program Strategies			8,440		12,338	
Title VI- R Classroom Size Reduction	050542 CR-S1 2002	84.340	8,531		30,442	
Safe and Drug-Free Schools and Communities State Grants	050542 DR-S1 2001 050542 DR-S1 2002	84.186	4,473 1,197		2,941 1,523	
Total Title VI Drug Free Schools			5,670		4,464	
Goals 2000 - State and Local Education Systemic Improvement Grants	050542 G2-S2 99	84.276			907	
Total United States Department of Education			254,360		279,413	
Totals			\$289,028	\$16,672	\$314,081	\$16,962

The accompanying notes to this schedule are an integral part of this schedule.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Dalton Local School District
Wayne County
P.O. Box 514
Dalton, Ohio 44618

To the Board of Education:

We have audited the accompanying financial statements of the Dalton Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 20, 2002, which noted the District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-10985-001.

We also noted other immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 20, 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 November 20, 2002.

Dalton Local School District
Wayne County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities 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 long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 20, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Dalton Local School District
Wayne County
P.O. Box 514
Dalton, Ohio 44618

To the Board of Education:

Compliance

We have audited the compliance of the Dalton Local School District, Wayne County, Ohio (the District) with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Dalton Local School District
Wayne County
Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control
over Compliance In Accordance With OMB Circular A-133
Page 2

However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 20, 2002.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

November 20, 2002

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2002-10985-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with 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 can be fined and various other administrative remedies may be taken against the District.

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 has reported this matter to the Ohio Department of Education.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**DALTON LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10985-001	The District did not comply with Ohio Admin. Code Section 117-2-03 (B) and prepare financial statements in accordance with generally accepted accounting principles.	No	Not corrected. Refer to Finding Number 2002-10985-001.



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DALTON LOCAL SCHOOL DISTRICT

WAYNE 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
JANUARY 2, 2003**