



**Auditor of State
Betty Montgomery**

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Pandora-Gilboa Local School District
Putnam County
301 North Jefferson Street
P.O. Box 389
Pandora, Ohio 45877-0389

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Pandora-Gilboa Local School District (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Pandora-Gilboa Local School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2003 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.

The accompanying federal awards receipts and expenditures schedule is presented for additional analysis as required by 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 general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 30, 2003

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**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$800,399	\$145,974	\$153,199	\$10,466,464
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Investments - nonexpendable trust fund				
Receivables (net of allowances of uncollectibles):				
Property taxes - current and delinquent	1,345,657	23,045	282,130	
Due from other governments				4,842,984
Materials and supplies inventory				
Prepayments	31,383			15,500
Restricted assets:				
Equity in pooled cash and cash equivalents	65,248			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$2,242,687	\$169,019	\$435,329	\$15,324,948

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$35,715	\$21,210			\$11,622,961
	3,318			3,318
	2,094			2,094
				1,650,832
3,869				4,846,853
1,209				1,209
				46,883
				65,248
1,091		\$5,936,482		5,937,573
			\$170,965	170,965
			4,308,450	4,308,450
\$41,884	\$26,622	\$5,936,482	\$4,479,415	\$28,656,386

(Continued)

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$21,377	\$4,841		
Contracts payable				\$486,361
Accrued wages and benefits	352,893	2,610		
Compensated absences payable	3,839			
Pension obligation payable	58,928	762		
Due to other governments	10,391	139		
Deferred revenue	1,162,023	21,611	\$264,364	4,842,984
Due to students				
Energy conservation notes payable				
General obligation bonds payable				
Total liabilities	<u>1,609,451</u>	<u>29,963</u>	<u>264,364</u>	<u>5,329,345</u>
Equity and other credits:				
Investment in general fixed assets				
Retained earnings: unreserved				
Fund balances (deficit):				
Reserved for encumbrances	100,568	25,421		12,011,515
Reserved for prepayments	31,383			15,500
Reserved for debt service			153,199	
Reserved for tax revenue unavailable for appropriation	67,250	1,434	17,766	
Reserved for principal endowment				
Reserved for budget stabilization	13,134			
Reserved for instructional material	18,060			
Reserved for school bus purchases	34,054			
Unreserved-undesignated	368,787	112,201		(2,031,412)
Total equity and other credits	<u>633,236</u>	<u>139,056</u>	<u>170,965</u>	<u>9,995,603</u>
Total liabilities, equity and other credits	<u>\$2,242,687</u>	<u>\$169,019</u>	<u>\$435,329</u>	<u>\$15,324,948</u>

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

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$513				\$26,731
				486,361
13,894				369,397
1,002			\$244,683	249,524
5,658			34,313	99,661
278	\$128			10,936
				6,290,982
	20,582			20,582
			96,172	96,172
			4,104,247	4,104,247
<u>21,345</u>	<u>20,710</u>		<u>4,479,415</u>	<u>11,754,593</u>
		\$5,936,482		5,936,482
20,539				20,539
				12,137,504
				46,883
				153,199
				86,450
	5,250			5,250
				13,134
				18,060
				34,054
	662			(1,549,762)
<u>20,539</u>	<u>5,912</u>	<u>5,936,482</u>		<u>16,901,793</u>
<u>\$41,884</u>	<u>\$26,622</u>	<u>\$5,936,482</u>	<u>\$4,479,415</u>	<u>\$28,656,386</u>

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$1,519,285	\$23,845
Tuition	1,870	
Earnings on investments	63,624	
Extracurricular activities		106,701
Other local revenues	13,989	23,620
Other revenue		3,481
Intergovernmental - State	2,508,096	228,485
Intergovernmental - Federal		108,521
Total revenues	<u>4,106,864</u>	<u>494,653</u>
Expenditures:		
Current:		
Instruction:		
Regular	1,959,318	47,107
Special	306,099	13,340
Vocational	88,961	
Other	148,504	
Support services:		
Pupil	122,523	3,217
Instructional staff	144,921	264,034
Board of Education	66,157	
Administration	508,056	20,429
Fiscal	142,279	9,285
Operations and maintenance	312,069	
Pupil transportation	220,954	
Central	7,796	
Community services	3,556	
Extracurricular activities	73,518	66,942
Facilities acquisition and construction	5,327	
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	<u>4,110,038</u>	<u>424,354</u>
Excess of revenues over (under) expenditures	<u>(3,174)</u>	<u>70,299</u>
Other financing sources (uses):		
Premium and accrued interest on bonds and notes		
Proceeds from sale of bonds		
Proceeds from sale of fixed assets	1,382	
Operating transfers in	1,000	1,173
Operating transfers out	<u>(1,000)</u>	<u>(1,173)</u>
Total other financing sources (uses)	<u>1,382</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,792)</u>	<u>70,299</u>
Fund balances, July 1	<u>635,028</u>	<u>68,757</u>
Fund balances, June 30	<u>\$633,236</u>	<u>\$139,056</u>

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

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$360,854			\$1,903,984
	\$177,706		1,870
			241,330
		\$1,000	106,701
			38,609
			3,481
58,163	7,605,273		10,400,017
			108,521
<u>419,017</u>	<u>7,782,979</u>	<u>1,000</u>	<u>12,804,513</u>
	5,191		2,011,616
			319,439
			88,961
			148,504
	16,772		125,740
			425,727
			66,157
			528,485
8,639			160,203
			312,069
			220,954
			7,796
		1,000	4,556
	2,338,596		140,460
			2,343,923
84,587	4,141,000		4,225,587
348,695	16,805		365,500
<u>441,921</u>	<u>6,518,364</u>	<u>1,000</u>	<u>11,495,677</u>
<u>(22,904)</u>	<u>1,264,615</u>		<u>1,308,836</u>
4,827			4,827
	4,141,000		4,141,000
			1,382
	15,034		17,207
<u>(15,034)</u>			<u>(17,207)</u>
<u>(10,207)</u>	<u>4,156,034</u>		<u>4,147,209</u>
(33,111)	5,420,649		5,456,045
204,076	4,574,954	500	5,483,315
<u>\$170,965</u>	<u>\$9,995,603</u>	<u>\$500</u>	<u>\$10,939,360</u>

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES**

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$1,298,915	\$1,574,973	\$276,058
Tuition	6,249	5,713	(536)
Earnings on investments	69,592	63,624	(5,968)
Extracurricular activities			
Other local revenues	4,234	3,871	(363)
Other revenue			
Intergovernmental - State	2,743,368	2,508,096	(235,272)
Intergovernmental - Federal			
Total revenues	<u>4,122,358</u>	<u>4,156,277</u>	<u>33,919</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,975,019	1,989,139	(14,120)
Special	292,202	307,763	(15,561)
Vocational	127,277	115,120	12,157
Other	148,243	148,504	(261)
Support services:			
Pupil	122,629	120,049	2,580
Instructional staff	175,132	148,456	26,676
Board of Education	80,377	76,282	4,095
Administration	508,672	495,745	12,927
Fiscal	155,150	143,126	12,024
Business	300	6	294
Operations and maintenance	341,177	318,808	22,369
Pupil transportation	233,217	223,372	9,845
Central	8,569	7,795	774
Community services	3,595	3,556	39
Extracurricular activities	81,063	73,619	7,444
Facilities acquisition and construction	55,000	63,983	(8,983)
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>4,307,622</u>	<u>4,235,323</u>	<u>72,299</u>
Excess of revenues over (under) expenditures	<u>(185,264)</u>	<u>(79,046)</u>	<u>106,218</u>
Other financing sources (uses):			
Advances in	12,579	11,500	(1,079)
Advances out	(12,000)		12,000
Operating transfers in	69,884	63,891	(5,993)
Operating transfers out		(63,891)	(63,891)
Proceeds from sale of fixed assets	1,512	1,382	(130)
Proceeds from sale of bonds			
Premium and accrued interest on bonds and notes			
Refund of prior year expenditure	11,067	10,118	(949)
Total other financing sources (uses)	<u>83,042</u>	<u>23,000</u>	<u>(60,042)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(102,222)</u>	<u>(56,046)</u>	<u>46,176</u>
Fund balances, July 1	750,988	750,988	
Prior year encumbrances appropriated	59,322	59,322	
Fund balances, June 30	<u>\$708,088</u>	<u>\$754,264</u>	<u>\$46,176</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$25,988	\$24,453	(\$1,535)	\$321,874	\$368,384	\$46,510
103,893	106,701	2,808			
22,317	22,920	603			
3,389	3,481	92			
222,472	228,485	6,013	99,840	58,163	(41,677)
104,914	107,750	2,836			
482,973	493,790	10,817	421,714	426,547	4,833
48,169	47,451	718			
13,266	12,570	696			
3,930	3,670	260			
299,257	282,904	16,353			
19,437	20,322	(885)			
9,437	9,436	1	8,684	8,640	44
77,512	76,695	817			
			84,587	84,587	
			363,729	363,729	
471,008	453,048	17,960	457,000	456,956	44
11,965	40,742	28,777	(35,286)	(30,409)	4,877
1,606	1,649	43			
(1,501)	(1,649)	(148)			
			8,286	4,827	(3,459)
105		(105)	8,286	4,827	(3,459)
12,070	40,742	28,672	(27,000)	(25,582)	1,418
66,010	66,010		178,781	178,781	
9,211	9,211				
\$87,291	\$115,963	\$28,672	\$151,781	\$153,199	\$1,418

(Continued)

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
(Continued)

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget Revised	Actual	
Revenues:			
From local sources:			
Taxes	\$22,951		(\$22,951)
Tuition			
Earnings on investments	154,721	\$155,576	855
Extracurricular activities			
Other local revenues			
Other revenue			
Intergovernmental - State	7,563,499	7,605,273	41,774
Intergovernmental - Federal			
Total revenues	<u>7,741,171</u>	<u>7,760,849</u>	<u>19,678</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,513	1,513	
Special			
Vocational			
Other			
Support services:			
Pupil			
Instructional staff	17,000	16,772	228
Board of Education			
Administration	170	170	
Fiscal			
Business			
Operations and maintenance			
Pupil transportation			
Central			
Community services			
Extracurricular activities			
Facilities acquisition and construction	2,003,674	14,422,407	(12,418,733)
Debt service:			
Principal retirement	4,741,000	4,741,000	
Interest and fiscal charges			
Total expenditures	<u>6,763,357</u>	<u>19,181,862</u>	<u>(12,418,505)</u>
Excess of revenues over (under) expenditures	<u>977,814</u>	<u>(11,421,013)</u>	<u>(12,398,827)</u>
Other financing sources (uses):			
Advances in			
Advances out			
Operating transfers in			
Operating transfers out			
Proceeds from sale of fixed assets			
Proceeds from sale of bonds	4,118,254	4,141,000	22,746
Premium and accrued interest on bonds and notes			
Refund of prior year expenditure			
Total other financing sources (uses)	<u>4,118,254</u>	<u>4,141,000</u>	<u>22,746</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	5,096,068	(7,280,013)	(12,376,081)
Fund balances, July 1	5,248,601	5,248,601	
Prior year encumbrances appropriated			
Fund balances, June 30	<u><u>\$10,344,669</u></u>	<u><u>(\$2,031,412)</u></u>	<u><u>(\$12,376,081)</u></u>

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

Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$1,669,728	\$1,967,810	\$298,082
6,249	5,713	(536)
224,313	219,200	(5,113)
103,893	106,701	2,808
26,551	26,791	240
3,389	3,481	92
10,629,179	10,400,017	(229,162)
104,914	107,750	2,836
<u>12,768,216</u>	<u>12,837,463</u>	<u>69,247</u>
2,024,701	2,038,103	(13,402)
305,468	320,333	(14,865)
127,277	115,120	12,157
148,243	148,504	(261)
126,559	123,719	2,840
491,389	448,132	43,257
80,377	76,282	4,095
528,279	516,237	12,042
173,271	161,202	12,069
300	6	294
341,177	318,808	22,369
233,217	223,372	9,845
8,569	7,795	774
3,595	3,556	39
158,575	150,314	8,261
2,058,674	14,486,390	(12,427,716)
4,825,587	4,825,587	
363,729	363,729	
<u>11,998,987</u>	<u>24,327,189</u>	<u>(12,328,202)</u>
<u>769,229</u>	<u>(11,489,726)</u>	<u>(12,258,955)</u>
12,579	11,500	(1,079)
(12,000)		12,000
71,490	65,540	(5,950)
(1,501)	(65,540)	(64,039)
1,512	1,382	(130)
4,118,254	4,141,000	22,746
8,286	4,827	(3,459)
11,067	10,118	(949)
<u>4,209,687</u>	<u>4,168,827</u>	<u>(40,860)</u>
4,978,916	(7,320,899)	(12,299,815)
6,244,380	6,244,380	
68,533	68,533	
<u>\$11,291,829</u>	<u>(\$1,007,986)</u>	<u>(\$12,299,815)</u>

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY AND FIDUCIARY FUND TYPES

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating revenues:			
Tuition and fees	\$36,223		\$36,223
Sales and charges for services	151,881		151,881
Investment earnings		\$258	258
	<u>188,104</u>	<u>258</u>	<u>188,362</u>
Operating expenses:			
Personal services	104,164		104,164
Contract services	3,592		3,592
Materials and supplies	113,154		113,154
Depreciation	875		875
Other	412	800	1,212
	<u>222,197</u>	<u>800</u>	<u>222,997</u>
Operating loss	<u>(34,093)</u>	<u>(542)</u>	<u>(34,635)</u>
Nonoperating revenues:			
Operating grants	30,761		30,761
Federal commodities	12,955		12,955
	<u>43,716</u>	<u></u>	<u>43,716</u>
Net income (loss)	9,623	(542)	9,081
Retained earnings/fund balance, July 1	<u>10,916</u>	<u>5,954</u>	<u>16,870</u>
Retained earnings/fund balance, June 30	<u><u>\$20,539</u></u>	<u><u>\$5,412</u></u>	<u><u>\$25,951</u></u>

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

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:			
Cash received from tuition and fees	\$36,223		\$36,223
Cash received from sales and service charges	151,881		151,881
Cash payments for personal services	(101,200)		(101,200)
Cash payments for contract services	(3,590)		(3,590)
Cash payments for materials and supplies	(103,827)		(103,827)
Cash payments for other expenses	(412)	(\$800)	(1,212)
Net cash used in operating activities	<u>(20,925)</u>	<u>(800)</u>	<u>(21,725)</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	26,892		26,892
Cash payments used in repayment of interfund loans	(11,500)		(11,500)
Net cash provided by noncapital financing activities	<u>15,392</u>		<u>15,392</u>
Cash flows from investing activities:			
Investment income		281	281
Sale of investments		2,000	2,000
Net cash provided by investing activities		<u>2,281</u>	<u>2,281</u>
Net decrease in cash and cash equivalents	(5,533)	1,481	(4,052)
Cash and cash equivalents at beginning of year	41,248	1,837	43,085
Cash and cash equivalents at end of year	<u>\$35,715</u>	<u>\$3,318</u>	<u>\$39,033</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	(\$34,093)	(\$542)	(\$34,635)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	875		875
Federal donated commodities	12,955		12,955
Interest reported as operating income		(258)	(258)
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(363)		(363)
Decrease in accounts payable	(2,754)		(2,754)
Increase in accrued wages and benefits	2,917		2,917
Increase in compensated absences	903		903
Decrease in pension obligation payable	(990)		(990)
Increase in due to other governments	278		278
Decrease in deferred revenue	(653)		(653)
Net cash used in operating activities	<u>(\$20,925)</u>	<u>(\$800)</u>	<u>(\$21,725)</u>

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

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**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Pandora-Gilboa Local School District (the District) is located in Putnam County, and includes all of the Villages of Pandora and Gilboa and portions of Riley, Blanchard, Richland, Pleasant, and Van Buren Townships. The District serves an area of approximately sixty-six square miles.

The District was organized in 1951, in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws.

The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates one elementary school and one comprehensive high school. The District employs 27 non-certified and 49 certified (including administrative) full-time and part-time employees to provide services to approximately 624 students in grades K through 12 and various community groups, which ranks it 580th out of approximately 705 public and community school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. The Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent school district. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Millstream Cooperative Career Center (Career Center)

The Millstream Cooperative Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from Pam Barber, Treasurer, Findlay City School District, 227 South West Street, Findlay, Ohio 45840-3377.

The District also participates in two insurance group purchasing pools, described in Note 12.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred in accordance with applicable Ohio statute.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types.

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or 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 purposes.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds, while nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature, and results of operations are not measured. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds and nonexpendable trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds and nonexpendable trust funds.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds and nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

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. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Putnam County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

5. All funds, other than Agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation, except as reported in Note 3.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reservation of fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for enterprise funds are disclosed in Note 13.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal 2002, investments were limited to money market mutual funds, the State Treasury Asset Reserve of Ohio (STAR Ohio), and donated common stock.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Calculation of the Net Increase in the Fair Value of Investments - Aggregate Method

Fair value at June 30, 2001	\$2,094
Add: Proceeds of investments sold in 2002	2,000
Fair value at June 30, 2000	<u>(4,117)</u>
Change in fair value of investments	<u><u>(\$23)</u></u>

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$63,624, which includes \$41,119 assigned from other District funds.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expenses when used rather than when purchased.

G. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$100 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed asset account group.

2. Proprietary Funds

Equipment reflected in these funds is stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

depreciated over the remaining useful lives of the related fixed assets. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and minor equipment	3 - 40

I. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten (10) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

K. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, debt service, tax revenue unavailable for appropriation, budget stabilization, instructional materials, school bus purchases, and principal endowment. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. The District has also received state monies that are restricted for school bus purchases. Fund balance reserves have also been established. See Note 18 for details.

N. Estimates

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

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

O. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Budgetary Noncompliance

The following fund had expenditures and encumbrances in excess of appropriations, which is contrary to § 5705.41 of the Ohio Revised Code:

	<u>Excess</u>
<u>Capital Projects Fund</u>	
Building Fund	\$12,418,731

B. Deficit Fund Balances

Fund balances at June 30, 2002, included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Teacher Development	\$ 5
Management Information Systems	14

These deficits, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

C. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>LIABILITIES</u>	
Accounts payable	\$72

NOTE 4 - 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 has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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, 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 moneys deposited with the institution.

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 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% 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) 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 180 days from the date of purchase 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the District's deposits was \$4,512,003 and the bank balance was \$4,622,402. Of the bank balance:

1. \$300,000 was covered by federal deposit insurance; and
2. \$4,322,402 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are required to be categorized to give an indication of the level of 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 the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name. STAR Ohio and money market mutual funds are unclassified investments since they are not evidenced by securities which exist in physical or book entry form.

	Category 2	Fair Value
Common stock	\$2,094	\$2,094
Not subject to categorization:		
Investment in STAR Ohio		7,176,209
Money market mutual fund		3,315
Total investments	\$2,094	\$7,181,618

The common stock, although not an authorized investment under current Ohio law, was donated to the District to endow the nonexpendable trust fund. No public funds were used to acquire the stock.

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

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	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$11,691,527	\$2,094
Investments of the cash management pool:		
STAR Ohio	(7,176,209)	7,176,209
Money market mutual fund	(3,315)	3,315
GASB Statement No. 3	<u>\$4,512,003</u>	<u>\$7,181,618</u>

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the District's operating transfers for fiscal year 2002:

	Transfers In	Transfers Out
General Fund	\$1,000	\$1,000
Special Revenue Funds:		
Public School Support		173
District Managed Student Activity	1,173	1,000
Debt Service Fund:		
Bond Retirement		15,034
Capital Projects Funds:		
Building	15,034	
Total	<u>\$17,207</u>	<u>\$17,207</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue, which would otherwise have been collected.

The assessed value upon which the 2001 taxes were collected was \$52,996,925. Agricultural/residential and public utility/minerals real estate represented 81.89% or \$43,399,640 of this total; commercial & industrial real

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estate represented 4.68% or \$2,482,160 of this total, public utility tangible represented 3.83% or \$2,028,030 of this total and general tangible property represented 9.60% or \$5,087,095 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$37.35 per \$1,000.00 of assessed valuation for operations and \$6.19 per \$1,000.00 of assessed valuation for debt service.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Putnam County Treasurer collects property tax on behalf of the District. The 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.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2002 totaled \$67,250 in the general fund, \$17,766 in the debt service fund and \$1,434 in the maintenance fund.

NOTE 7 - INCOME TAX

The District levies a voted tax of .75% for general operations on the income of residents and of estates. The tax was renewed for a period of five years on January 1, 1999. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund, and totaled \$374,531 for fiscal 2002, which includes a receivable of \$116,384 at June 30, 2002.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes and intergovernmental grants (to the extent that eligibility requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as "Due from other governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

<u>General Fund</u>	<u>Amount</u>
Taxes - current and delinquent	\$1,345,657

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<u>Special Revenue Funds</u>	
Taxes - current and delinquent	23,045
<u>Debt Service Fund</u>	
Taxes - current and delinquent	282,130
<u>Capital Project Funds</u>	
Due from other Governments	4,842,984

NOTE 9 - FIXED ASSETS

The following changes occurred in the general fixed assets account group during the year:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Land/improvements	\$78,410			\$78,410
Buildings/improvements	1,948,973			1,948,973
Furniture/equipment	1,574,293	\$183,598	\$257,839	1,500,052
Vehicles	521,354	14,894	57,056	479,192
Construction in progress		1,929,855		1,929,855
Total	\$4,123,030	\$2,128,347	\$314,895	\$5,936,482

The construction-in-progress at June 30, 2002, represents costs incurred by fiscal year-end related to the Construction Project outlined in Note 10.A.

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$55,949
Less: accumulated depreciation	<u>(54,858)</u>
Net fixed assets	<u>\$1,091</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** On July 10, 2002, the District issued general obligation bonds to provide funds for the construction of a new school building for pre-kindergarten through high school (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 6.19 mills bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2002, the total estimated cost of the Construction Project is \$17,552,000, of which OSFC will pay approximately \$12,989,000.

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In conjunction with the 6.19 mills which support the bond issue, the District also passed in fiscal 2002 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$4,025,000, and capital appreciation bonds, par value \$330,000. The interest rates on the current interest bonds range from 4.00% to 5.125%. The capital appreciation bonds mature on December 1, 2009 (effective interest 12.455%) and December 1, 2010 (effective interest 12.455%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the general long-term obligations account group at June 30, 2002 was \$116,000. As of June 30, 2002, \$13,247 of accreted interest on the capital appreciation bonds has been included in the general long-term obligations account group at June 30, 2002.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

The following is a schedule of activity for fiscal 2002 on the 2001 series general obligation bonds:

	Balance 7/1/01	Additions	Reductions	Balance 6/30/02
Current interest bonds		\$4,025,000	\$50,000	\$3,975,000
Capital appreciation bonds		116,000		116,000
Accreted interest		13,247		13,247
		\$4,154,247	\$50,000	\$4,104,247

The following is a summary of the future debt service requirements to maturity for the 2002 series general obligation bonds:

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$120,000	\$188,662	\$308,662			
2004	125,000	183,762	308,762			
2005	135,000	178,562	313,562			
2006	145,000	172,962	317,962			
2007	150,000	167,062	317,062			
2008 - 2012	480,000	765,185	1,245,185	\$330,000		\$330,000
2013 - 2017	980,000	598,060	1,578,060			
2018 - 2022	1,250,000	317,092	1,567,092			
2023 - 2025	590,000	30,494	620,494			
Total	\$3,975,000	\$2,601,841	\$6,576,841	\$330,000		\$330,000

- B.** On January 5, 1995, the District issued \$312,855 in Energy Conservation Notes, in accordance with the authority granted by H.B. 264.

Energy conservation notes outstanding are long-term general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these

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notes are recorded as expenditures in the debt service fund; however, unlike general obligation notes, H.B. 264 allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the District's long-term notes outstanding as of June 30, 2002:

Purpose	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance 07/01/01	Retired in Fiscal 2002	Balance 6/30/02
Bond anticipation notes	4.75%	12/19/00	10/15/01	\$4,141,000	\$4,141,000	(\$4,141,000)	
Energy conservation notes	7.00%	01/05/95	08/01/05	312,885	130,759	(34,587)	\$96,172
Total				\$4,453,885	\$4,271,759	(\$4,175,587)	\$96,172

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Year Ending June 30	Energy Conservation Notes
2003	\$43,435
2004	43,435
2005	19,178
Total obligation	106,048
Less interest	(9,876)
Total principal	\$96,172

- C. During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

	Balance 7/1/01	Increase	Decrease	Balance 6/30/02
Compensated absences	\$181,406	\$63,277		\$244,683
Energy conservation notes	130,759		(\$34,587)	96,172
Pension obligation	36,081	34,313	(36,081)	34,313
Bond Anticipation Notes	4,141,000		(4,141,000)	
G.O. bonds payable		4,154,247	(50,000)	4,104,247
Total	\$4,489,246	\$4,251,837	(\$4,261,668)	\$4,479,415

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$849,688 (including available funds of \$170,965), an unvoted debt margin of \$52,997, and an unvoted energy conservation debt margin of \$380,800.

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NOTE 11 - NOTES PAYABLE

During fiscal 2001, subsequent to the passage of a bond issue in the November, 2000 general election, the District issued bond anticipation notes. These notes had been reported as a liability of the building fund, which received the proceeds upon issuance. During fiscal 2002, the District retired these notes.

The following is a summary of the District's fiscal year 2002 bond anticipation note activity:

Purpose	Interest Rate	Issue Date	Maturity Date	Notes	Retired	Notes
				Outstanding 07/01/2001	in 2002	Outstanding 06/30/2002
School improvements note	4.75%	12/19/00	10/05/01	\$600,000	(\$600,000)	

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During fiscal year 2002, the District contracted with Indiana Insurance Co. for the following lines of insurance:

Coverages provided by the Districts insurance carriers are as follows:

	<u>Coverage</u>
Building and Contents-Replacement cost (\$500 deductible)	\$12,295,438
Inland Marine Coverage (\$100 deductible)	133,240
Miscellaneous Property Coverage	18,800
Electronic Data Processing (\$100 deductible other than mechanical)	546,616
Automobile Liability	1,000,000
Auto Medical	5,000
Uninsured Motorists - Bodily Injury	1,000,000
Comprehensive	Actual Cash Value
Collision	Actual Cash Value
Builders Risk (\$1,000 Deductible)	12,826,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal 2001.

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the program. Each year,

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the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The District offers group medical, dental, and prescription insurances to all employees through Medical Mutual of Ohio. Depending upon the plan chosen, the employees share a portion of the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Regardless of the plan utilized by the employees, all group benefit plans are traditionally funded, and the District does not retain any risk of loss.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of Food Services, Uniform School Supplies, and Recreation. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	Food Services	Uniform School Supplies	Recreation	Total
Operating revenue	\$151,881	\$36,223		\$188,104
Depreciation expense	875			875
Operating income/(loss)	(41,847)	7,785	(\$31)	(34,093)
Non-operating revenue:				
Operating grants	30,761			30,761
Donated federal commodities	12,955			12,955
Net income/(loss)	1,869	7,785	(31)	9,623
Net working capital	8,208	12,242		20,450
Total assets	29,131	12,753		41,884
Long-term liabilities				
payable from fund revenues	1,002			1,002
Total fund equity	8,297	12,242		20,539
Encumbrances at 06/30/02	211	526		737

NOTE 14 - 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 defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

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Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$35,345, \$29,392, and \$27,320, respectively; 52.40% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$16,923, which presents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

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. The 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% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$194,304, \$162,936, and \$112,189, respectively; 83.77% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$31,535, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$92,039 during fiscal 2002.

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STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$68,319 during the 2002 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the Governmental funds are as follows:

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	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	(\$56,046)	\$40,742	(\$25,582)	(\$7,280,013)
Net adjustment for revenue accruals	(49,413)	863	(7,530)	22,130
Net adjustment for expenditure accruals	13,902	(1,317)	15,035	165,622
Net adjustment for other financing sources/(uses)	(21,618)		(15,034)	15,034
Adjustment for encumbrances	111,383	30,011		12,497,876
GAAP basis	<u>(\$1,792)</u>	<u>\$70,299</u>	<u>(\$33,111)</u>	<u>\$5,420,649</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

As of the balance sheet date, the District is involved in no litigation either as a plaintiff or defendant.

C. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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NOTE 18 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund (cash basis) revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Instructional Materials Reserve	Capital Maintenance Reserve	Budget Stabilization
Balance 7/1/01	\$31,875		\$13,134
Required set-aside	78,952	\$78,952	
Qualifying expenditures	(92,767)	(74,093)	
Current year offsets		(4,859)	
	<u>\$18,060</u>	<u></u>	<u>\$13,134</u>
Balance 6/30/02	<u>\$18,060</u>	<u></u>	<u>\$13,134</u>
Balance carried forward to FY 2003	<u>\$18,060</u>	<u></u>	<u>\$13,134</u>

The District had offsets and qualifying disbursements during the year that reduced the capital maintenance set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements of future years and therefore has been excluded from the schedule.

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for instructional materials	\$18,060
Amount restricted for bus purchases	34,054
Amount restricted for budget stabilization	13,134
Total restricted assets	<u>\$65,248</u>

NOTE 19 - OUTSTANDING CONTRACTUAL COMMITMENTS

At June 30, 2002, the District had the following outstanding contractual commitments related to a School Building Construction Project:

Vendor	Amount
Alvada Construction	\$644,479
Area Energy	1,200,936
Armor Fire Protection	169,340
C&T Design & Equip	342,350
CTL Engineering	21,944
D.E. Williams	654,161
Fidelity Builders	49,021
Frost & Co.	568,050
Orwell Telephone	20,917
RTBM	557,678
Schnippel	6,126,926
Triad	240,246
Warner Mechanical	2,157,217
Total	<u>\$12,753,265</u>

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**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
UNITED STATES DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Food Donation Program	-	10.550
National School Lunch Program	LL-P4-02	10.555
Total Department of Agriculture - Nutrition Cluster		
UNITED STATES DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	49395-C1-S1-96	84.010
	49395-C1-S1-99	84.010
	49395-C1-S1-00	84.010
	49395-C1-S1-01	84.010
	49395-C1-S1-02	84.010
Total Title I Grants		
Migrant Education - State Grant Program	49395-MG-S1-02	84.011
Special Education-Grants to States	49395-6B-SF-02	84.027
Safe and Drug Free Schools and Communities Grant	49395-DR-S1-02	84.186
Goals 2000 - State and Local Education Systematic Improvement	49395-G2-S2-99	84.276
Eisenhower Professional Development	49395-MS-S1-02	84.281
Innovative Educational Program Strategies	49395-C2-S1-01	84.298
	49395-C2-S1-02	84.298
Total Innovative Education Program		
Technology Literacy Challenge Fund Grant	49395-TF-VM-00	84.318
Class Size Reduction	49395-CR-S1-00	84.340
	49395-CR-S1-02	84.340
Total Class Size Reduction		
Total Department of Education		
Totals		

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$12,301		\$11,930
<u>\$26,194</u>		<u>\$26,194</u>	
<u>26,194</u>	<u>12,301</u>	<u>26,194</u>	<u>11,930</u>
		1,637	
		365	
		5,119	
		5,181	
<u>20,777</u>		<u>13,813</u>	
<u>20,777</u>		<u>26,115</u>	
12,000		11,283	
43,275		43,275	
2,459		2,459	
		1,764	
2,442		2,408	
		322	
<u>3,241</u>		<u>3,241</u>	
<u>3,241</u>		<u>3,563</u>	
199,328		175,072	
4,523		4,523	
<u>9,205</u>		<u>9,205</u>	
<u>13,728</u>		<u>13,728</u>	
<u>297,250</u>		<u>279,667</u>	
<u>\$323,444</u>	<u>\$12,301</u>	<u>\$305,861</u>	<u>\$11,930</u>

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION AND NATIONAL SCHOOL LUNCH

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Pandora-Gilboa Local School District
Putnam County
301 North Jefferson Street
P.O. Box 389
Pandora, Ohio 45877-0389

To the Board of Education:

We have audited the financial statements of Pandora-Gilboa Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 30, 2003. 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 2002-10269-001. We also noted certain immaterial instances of noncompliance, which we have reported to the management of the District in a separate letter dated January 30, 2003.

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 January 30, 2003.

This report is intended for the information and use of management, the Board of Education, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 30, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Pandora-Gilboa Local School District
Putnam County
301 North Jefferson Street
P.O. Box 389
Pandora, Ohio 45877-0389

To the Board of Education:

Compliance

We have audited the compliance of Pandora-Gilboa Local School District (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 auditing standards generally accepted in the United States of America; 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. 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 on 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. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of District in a separate letter dated January 30, 2003.

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 internal control over compliance in accordance with OMB Circular A-133.

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, 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.



Betty Montgomery
Auditor of State

January 30, 2003

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM 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 noncompliance 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):	Technology Literacy Challenge Fund Grant - CFDA #84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-10269-001

Noncompliance Citation

Ohio Revised Code §5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated.

Expenditures exceeded appropriations in the following fund at year end:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures</u>	<u>Excess of Expenditures over Appropriations</u>
Building Fund	\$6,150,000	\$18,568,731	\$12,418,731

**FINDING NUMBER 2002-10269-001
(Continued)**

The District should monitor the appropriations throughout the year to ensure they are sufficient to support planned expenditures. The Treasurer should inform the Board of the insufficiency of appropriations, and whether current resources permit an increase to appropriations. The Board should determine if they wish to increase appropriations and if needed, obtain an amended certificate of estimated resources.

3. FINDINGS FOR FEDERAL AWARDS

None.

**PANDORA-GILBOA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10269-001	ORC § 5705.10 deficit fund cash balances	Yes	



**Auditor of State
Betty Montgomery**

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PANDORA-GILBOA LOCAL SCHOOL DISTRICT

PUTNAM 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
MARCH 11, 2003**