



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY  
REGULAR AUDIT  
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of Dalton Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Dalton Local School District, Wayne County as of June 30, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004 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.

Dalton Local School District  
Wayne County  
Independent Accountants' Report  
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This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

November 5, 2004

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>(Memorandum) Only</u>
<b>CASH RECEIPTS</b>					
Taxes	\$2,741,722		\$185,310		\$2,927,032
Intergovernmental	3,057,264	\$702,968	19,555		3,779,787
Tuition	8,109				8,109
Investment Earnings	11,834				11,834
Extracurricular Activities		185,518			185,518
Classroom Materials and Fees	2,129				2,129
Miscellaneous	22,909	4,800		\$1,000	28,709
<b>Total Cash Receipts</b>	<u>5,843,967</u>	<u>893,286</u>	<u>204,865</u>	<u>1,000</u>	<u>6,943,118</u>
<b>CASH DISBURSEMENTS</b>					
Instruction:					
Regular	3,091,942	147,562			3,239,504
Special	307,869	244,127			551,996
Vocational Education	128,329	380			128,709
Other	19,540	977			20,517
Support Services:					
Pupils	174,404	137,548		2,700	314,652
Instructional Staff	467,373	30,254			497,627
Board of Education	13,465				13,465
School Administration	622,530	550			623,080
Fiscal	239,053				239,053
Operations and Maintenance	776,794	431			777,225
Student Transportation	395,973	1,455			397,428
Support Services - Central	30,329	9,155			39,484
Non-Instructional Services:					
Community Services		223,697			223,697
Extracurricular Activities:					
Academic and Subject Oriented	19,809				19,809
Sports Oriented	189,378	120,756			310,134
Co-Curricular	17,190				17,190
Site Improvement	601		83,173		83,774
<b>Total Cash Disbursements</b>	<u>6,494,579</u>	<u>916,892</u>	<u>83,173</u>	<u>2,700</u>	<u>7,497,344</u>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	(650,612)	(23,606)	121,692	(1,700)	(554,226)
<b>Other Financing Sources (Uses)</b>					
Transfers-In		17,964			17,964
Advances-In	102,035	4,014			106,049
Advances-Out	(4,014)	(9,500)	(92,535)		(106,049)
Transfers-Out	(52,363)	(4,277)			(56,640)
<b>Total Other Financing Sources (Uses)</b>	<u>45,658</u>	<u>8,201</u>	<u>(92,535)</u>		<u>(38,676)</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(604,954)	(15,405)	29,157	(1,700)	(592,902)
Fund Cash Balances, July 1, 2003	1,151,839	151,714	2,475	6,700	1,312,728
<b>Fund Cash Balances, June 30, 2004</b>	<u>\$546,885</u>	<u>\$136,309</u>	<u>\$31,632</u>	<u>\$5,000</u>	<u>\$719,826</u>
Reserves for Encumbrances	<u>\$47,187</u>	<u>\$32,547</u>	<u>\$2,520</u>	<u>\$0</u>	<u>\$82,254</u>

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

DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Agency	(Memorandum Only)
<b>OPERATING CASH RECEIPTS</b>				
Food Service	\$108,415			\$108,415
Extracurricular Activities			\$122,999	122,999
Total Operating Cash Receipts	108,415		122,999	231,414
<b>OPERATING CASH DISBURSEMENTS</b>				
Personal Services-Salaries	92,084			92,084
Employees' Retirement and Insurance	32,501	\$40,061		72,562
Supplies and Materials	59,317		7,354	66,671
Other			110,668	110,668
Total Operating Cash Disbursements	183,902	40,061	118,022	341,985
Operating Income/(Loss)	(75,487)	(40,061)	4,977	(110,571)
<b>NONOPERATING CASH RECEIPTS</b>				
Miscellaneous	5,398	43,241		48,639
Intergovernmental	31,227			31,227
Total Nonoperating Cash Receipts	36,625	43,241		79,866
Excess of Cash Receipts Over/(Under) Cash Disbursements	(38,862)	3,180	4,977	(30,705)
Transfers-In	38,862			38,862
Transfers-Out			(186)	(186)
Net Cash Receipts Over Cash Disbursements		3,180	4,791	7,971
Fund Cash Balances, July 1, 2003		22,927	54,089	77,016
<b>Fund Cash Balances, June 30, 2004</b>	<b>\$0</b>	<b>\$26,107</b>	<b>\$58,880</b>	<b>\$84,987</b>
Reserves for Encumbrances	\$0	\$0	\$11,336	\$11,336

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



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

Average daily membership as of October 1, 2003 was 997. The District employed roughly 79 certificated employees and 50 non-certificated employees at that date.

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

**B. Reporting Entity**

The District is associated with a jointly governed organization, a public entity risk pool and an insurance pool. These organizations are the Tri-County Computer Services Association (TCCSA), the Wayne County Schools Council for Health Care Benefit Program and the Schools of Ohio Risk Sharing Authority (SORSA). These organizations are presented in Notes 11, 12 and 13.

**C. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**D. Cash and Investments**

Certificates of deposit and U.S. Government Agency Obligations are valued at cost. STAR Ohio is reported at fair market value which is based on quoted market prices.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are legally restricted to expenditure for specific purposes. The District had the following significant Special Revenue Funds:

Central Christian Fund- This auxiliary fund handles the state funding provided to the local private school located within the boundaries of District.

Tile I Fund- This fund is used to account for federal financial assistance used for improving teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

**3. Capital Project Funds**

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

**4. Enterprise Funds**

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Fund Accounting (Continued)**

**5. Internal Service Funds**

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

**6. Fiduciary Funds (Trust and Agency Funds)**

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

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

**F. Budgetary Process**

**1. Budget**

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

**2. Estimated Resources**

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. Budgeted receipts as shown in Note 3 do not include July 1, 2004, unencumbered fund balances. However, those fund balances are available for appropriations.

**3. Appropriations**

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Budgetary Process (Continued)**

**4. Encumbrances**

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

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

A summary of 2004 budgetary activity appears in Note 3.

**G. Property, Plant and Equipment**

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

**H. Unpaid Vacation and Sick Leave**

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

**I. Total Columns on Financial Statements**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, noted, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and,
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in an amount not to exceed 25 percent of the interim moneys available for investment at any one time.

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**Deposits:** At June 30, 2004, the carrying amount of the District's deposits was (\$631) and the bank balance was \$3,395.72. Deposits were either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**Investments**

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

<b>2004</b>	<b>Category 3</b>	<b>Carrying Value</b>
U.S. Government Agency Obligations	\$505,357	\$505,357
Corporate Bonds and Notes	<u>200,000</u>	<u>200,000</u>
Total	\$705,357	\$705,357
Certificates of Deposits		100,000
Star Ohio	<u>                    </u>	<u>87</u>
<b>Total</b>	<u><u>\$705,357</u></u>	<u><u>\$805,444</u></u>

Investments in STAR are not categorized investments because they are not evidenced by securities that exist in a physical or book entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending June 30, 2004 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,946,002	\$5,946,002	\$0
Special Revenue	915,264	915,264	0
Capital Projects	204,865	204,865	0
Enterprise	183,902	183,902	0
Internal Service	43,241	43,241	0
Fiduciary	<u>123,999</u>	<u>123,999</u>	<u>0</u>
Total	<u><u>\$7,417,273</u></u>	<u><u>\$7,417,273</u></u>	<u><u>\$0</u></u>

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$6,650,308	\$6,598,143	\$52,165
Special Revenue	972,397	963,216	9,181
Capital Projects	189,500	178,228	11,272
Enterprise	183,902	183,902	0
Internal Service	42,000	40,061	1,939
Fiduciary	156,700	132,244	24,456
Total	\$8,194,807	\$8,095,794	\$99,013

**4. PROPERTY TAX**

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

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the tax (calendar) year 2003 was \$43.60 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$20 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$25.22 per \$1,000 of assessed valuation for all other real property.

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

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) year 2003 was \$43.60 per \$1,000 of assessed valuation.

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**5. RISK MANAGEMENT**

The District participates in the Wayne County Schools Council Health Care Benefit Program, a shared risk pool (Note 12) to provide employee medical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District provides dental insurance directly with a private carrier.

For 2004, the District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool for its property, fleet and liability insurance coverage. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

**6. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. State Teachers Retirement System (Continued)**

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$531,257, \$325,578 and \$473,749, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$531,257 made by the School District and \$376,483 made by the plan members.

**B. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employees are established and may be amended, up to a statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$171,034, \$155,356 and \$167,616 respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

**7. POSTEMPLOYMENT BENEFITS**

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over much, in any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contribution equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$49,299 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003 (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003 (the latest information available) net health care costs by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefit, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the District, the amount of employer contributions used to fund health care including the surcharge equaled \$68,715.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**8. CONTINGENCIES**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**9. SET-ASIDES**

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2003	\$120,194	\$0
Current Year Set-Aside Requirement	139,722	139,722
Current Year Offsets	0	(175,708)
Qualifying Disbursements	(123,162)	0
Totals	\$136,754	(\$35,986)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$0	\$0
Set-Aside Reserve Balance as of June 30, 2004	\$136,754	\$0

The School District had a reserve balance of \$136,754 in the textbook set-aside at year end. Although, the District had current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

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

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATION**

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the treasurer at the Tri-County Educational Service Center which serves as the fiscal agent located in Wooster, Ohio. During the year ended June 30, 2004, the District paid approximately \$58,119 to TCCSA for basic service charges.

**12. PUBLIC ENTITY RISK POOL**

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

**13. INSURANCE POOL**

**Schools of Ohio Risk Sharing Authority**

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**14. PENDING LITIGATION**

The District is party to legal proceedings. District management is of the opinion that disposition of the legal proceedings will not have a material effect, if any, on the financial condition of the District.



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the accompanying financial statements of the Dalton Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004, in which we noted the District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested 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 2004-001.

We also noted an immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated November 5, 2004.

#### 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 an other matter involving the internal controls over financial reporting that does not require inclusion in this report that we have reported to the District's management in a separate letter dated November 5, 2004.

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

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

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

**Betty Montgomery**  
Auditor of State

November 5, 2004

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2004-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 117.38** requires that each public office file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**Ohio Administrative Code Section 117-2-03 (B)** requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subjected to various other administrative remedies for its failure to file the required financial report.

The District should prepare its annual financial report in accordance with generally accepted accounting principles.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	The District did not comply with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B) and prepare financial statements in accordance with generally accepted accounting principles.	No	Not corrected. Refer to Finding Number 2004-001.





**Auditor of State  
Betty Montgomery**

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**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 23, 2004**