



**Auditor of State  
Betty Montgomery**



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

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Hopewell-Loudon Local School District  
Seneca County  
290 North County Road 7  
P.O. Box 400  
Bascom, Ohio 44809-0400

To the Board of Education:

We have audited the accompanying financial statements of Hopewell-Loudon Local School District (the District) as of and for the year ended June 30, 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 § 117-2-03 (B) requires the District to prepare its financial report in accordance with generally accepted accounting principles. However, as described in Note 1, the District prepares its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005, 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.

Hopewell-Loudon Local School District  
Seneca 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

February 18, 2005

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

**COMBINED STATEMENT OF CASH AND CASH EQUIVALENTS  
FUND CASH BALANCES - ALL FUND TYPES  
AS OF JUNE 30, 2004**

<b>Cash and Cash Equivalents</b>	<b><u><u>\$ 2,774,719</u></u></b>
<b>Governmental Fund Types:</b>	
General Fund	\$ 1,532,729
Special Revenue Funds	249,742
Debt Service Fund	234,125
Capital Projects Funds	284,457
<b>Proprietary Fund Types:</b>	
Enterprise Funds	73,043
Internal Service Fund	300,651
<b>Fiduciary Fund Types:</b>	
Expendable Trust Funds	37,379
Agency Funds	62,593
	<u>62,593</u>
<i>Total</i>	<b><u><u>\$ 2,774,719</u></u></b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

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

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<b>Cash Receipts:</b>		
Local Sources:		
Taxes	\$ 2,331,182	
Tuition	737,373	
Earnings on Investment	25,293	
Miscellaneous Receipts	75,520	\$ 21,172
Extracurricular Activities		161,848
Classroom Materials and Fees	38,805	
Intergovernmental - State	2,360,083	42,763
Intergovernmental - Federal		257,194
<i>Total Cash Receipts</i>	<u>5,568,256</u>	<u>482,977</u>
<b>Cash Disbursements:</b>		
Instruction:		
Regular	3,179,157	79,203
Special	336,321	230,038
Vocational Education	72,125	
Adult/Continuing		1,771
Support Services:		
Pupils	275,835	10,254
Instructional Staff	101,621	18,349
Board of Education	16,953	
Administration	438,890	1,363
Fiscal Services	218,360	
Operation and Maintenance of Plant	488,683	3,740
Pupil Transportation	209,994	13,246
Community Service		3,660
Extracurricular Activities	167,108	151,771
Building Improvement	27,660	
Interest and Fiscal Charges		
<i>Total Cash Disbursements</i>	<u>5,532,707</u>	<u>513,395</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>35,549</u>	<u>(30,418)</u>
<b>Other Financing Sources (Uses)</b>		
Transfer-in	11,051	31,813
Refund of Prior Year Expenditures	80	250
Transfer-out	(319,174)	(11,051)
<i>Total Other Financing Sources (Uses)</i>	<u>(308,043)</u>	<u>21,012</u>
<i>Excess of Cash Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</i>	<u>(272,494)</u>	<u>(9,406)</u>
Fund Cash Balances at July 1, 2003	1,805,223	259,148
<i>Fund Cash Balances at June 30, 2004</i>	<u><u>\$ 1,532,729</u></u>	<u><u>\$ 249,742</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$ 99,047			\$ 2,430,229
			\$737,373
		\$ 299	25,592
		2,565	99,257
		264	162,112
10,398			38,805
			2,413,244
			257,194
<u>109,445</u>		<u>3,128</u>	<u>6,163,806</u>
	\$ 19,472		3,277,832
			566,359
			72,125
			1,771
			286,089
			119,970
			16,953
			440,253
2,247			220,607
	98,290		590,713
	65,142		288,382
			3,660
		2,333	321,212
			27,660
<u>117,050</u>			<u>117,050</u>
<u>119,297</u>	<u>182,904</u>	<u>2,333</u>	<u>6,350,636</u>
<u>(9,852)</u>	<u>(182,904)</u>	<u>795</u>	<u>(186,830)</u>
	287,361		330,225
			330
			(330,225)
	<u>287,361</u>		<u>330</u>
(9,852)	104,457	795	(186,500)
243,977	180,000	36,584	2,524,932
<u>\$ 234,125</u>	<u>\$ 284,457</u>	<u>\$ 37,379</u>	<u>\$ 2,338,432</u>

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

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

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund</u>	<b>Totals (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
<b>Operating Receipts:</b>				
Extracurricular Activities	\$ 936		\$ 196,252	\$ 197,188
Food Services	182,775			182,775
Classroom Materials and Fees	4,922			4,922
<i>Total Operating Cash Receipts</i>	<u>188,633</u>		<u>196,252</u>	<u>384,885</u>
<b>Operating Expenses:</b>				
Employees Salaries and Wages	80,216		70	80,286
Employees Retirement and Insurance	26,528	\$ 42,061	10	68,599
Purchased Services	1,799	511,582	22,773	536,154
Supplies and Materials	111,859		61,152	173,011
Capital Outlay	5,132			5,132
Other Objects	508		95,747	96,255
<i>Total Operating Cash Disbursements</i>	<u>226,042</u>	<u>553,643</u>	<u>179,752</u>	<u>959,437</u>
<i>Operating Income (loss)</i>	<u>(37,409)</u>	<u>(553,643)</u>	<u>16,500</u>	<u>(574,552)</u>
<b>Nonoperating Receipts:</b>				
Earnings on Investments	539	3,558		4,097
State Sources	1,538			1,538
Federal Sources	53,113			53,113
Miscellaneous	414	632,473		632,887
<i>Total Nonoperating Cash Receipts</i>	<u>55,604</u>	<u>636,031</u>		<u>691,635</u>
<i>Excess Receipts Over Disbursements</i>	18,195	82,388	16,500	117,083
Fund Cash Balances at July 1, 2003	54,848	218,263	46,093	319,204
<i>Fund Cash Balances at June 30, 2004</i>	<u><b>\$ 73,043</b></u>	<u><b>\$ 300,651</b></u>	<u><b>\$ 62,593</b></u>	<u><b>\$ 436,287</b></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF RECEIPTS  
BUDGET AND ACTUAL COMPARISON  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2004

	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Governmental Fund Types:</b>			
General Fund	\$ 5,168,415	\$ 5,579,387	\$ 410,972
Special Revenue Funds	606,104	515,040	(91,064)
Debt Service Fund	110,000	109,445	(555)
Capital Projects Funds	180,000	287,361	107,361
<b>Proprietary Fund Types:</b>			
Enterprise Funds	265,257	244,237	(21,020)
Internal Service Fund	774,500	636,031	(138,469)
<b>Fiduciary Fund Types:</b>			
Trust and Agency Funds	191,316	199,380	8,064
<i>Total</i>	<b>\$ 7,295,592</b>	<b>\$ 7,570,881</b>	<b>\$ 275,289</b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES  
COMPARED WITH EXPENDITURE AUTHORITY  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Prior Year Carryover Appropriations	2004 Appropriations	Total
<b>Governmental Fund Types:</b>			
General Fund	\$ 122,434	\$ 5,942,900	\$ 6,065,334
Special Revenue Funds	14,473	489,264	503,737
Debt Service Fund		135,000	135,000
Capital Projects Funds		180,000	180,000
<b>Proprietary Fund Types:</b>			
Enterprise Funds	558	234,947	235,505
Internal Service Funds		724,475	724,475
<b>Fiduciary Fund Types:</b>			
Trust and Agency Funds	4,793	158,562	163,355
<i>Total</i>	<b>\$ 142,258</b>	<b>\$ 7,865,148</b>	<b>\$ 8,007,406</b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/04</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$ 5,851,881	\$ 73,049	\$ 5,924,930	\$ 140,404
524,446	14,107	538,553	(34,816)
119,297		119,297	15,703
182,904	15,271	198,175	(18,175)
226,042	700	226,742	8,763
553,643		553,643	170,832
182,085	1,490	183,575	(20,220)
<u>\$ 7,640,298</u>	<u>\$ 104,617</u>	<u>\$ 7,744,915</u>	<u>\$ 262,491</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**1. DESCRIPTION OF THE ENTITY**

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America, 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 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 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 disclosures of material matters, as formerly prescribed or permitted by the Auditor of State.

**A. Basis of Presentation – Fund Accounting**

The District uses fund accounting to segregate cash and investments that are restricted as to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

GOVERNMENTAL FUND TYPES

Government funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund

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

Special Revenue Funds

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

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

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

Debt Service Fund

The debt service fund accounts for financial resources to be used for the repayment of debt issued by the District.

Capital Projects Funds

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

PROPRIETARY FUND TYPES

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES

Fiduciary 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. The District's fiduciary funds included expendable trust and agency funds.

**B. Budgetary Process**

1. Budget

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

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



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

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

2. Tax Budget

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

3. Estimated Resources

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

Estimated receipts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002 and do not include the unencumbered fund balances as of July 1, 2002. However, those fund balances are available for appropriations.

4. Appropriations

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

5. Encumbrances

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

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

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

6. Lapsing of Appropriations

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

**C. Property, Plant, and Equipment**

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

**D. 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 basis of accounting used by the District.

**E. Cash and Investments**

During fiscal year 2004, investments were limited to the State Treasury Assets Reserve of Ohio (Star Ohio) and certificates of deposit. Investments are stated at cost. Investment earnings are allocated as authorized by State Statute and Board resolution. All investments had a maturity of two years or less.

**F. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Total-(Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation.

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

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

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

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

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

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

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

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

**Deposits and Investments**

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

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

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

	Carrying Amount
Demand deposits	\$ 1,860,666
Certificate of Deposits	200,000
<i>Total deposits</i>	2,060,666
 STAR Ohio	 714,053
<i>Total investments</i>	714,053
<i>Total deposits and investments</i>	\$ 2,774,719

Deposits

At year-end, the carrying amount of the District's deposits, including nonnegotiable certificates of deposit was \$2,060,666. The bank balance was \$1,891,181. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$1,591,181 was covered by collateral held by third party trustee pursuant to § 135.181, Revised Code, in collateralized pools securing all public funds on deposits with specific depository institutions.

Investments

Investments in STAR Ohio funds are not evidenced by securities that exist in physical or book-entry form. At year-end, the investments amount was \$714,053.

**4. PROPERTY TAX**

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

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

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

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

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

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

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

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2004, plan members contributed 10 percent of their annual-covered salary and the District contributed 14 percent. The District has paid all contributions required through June 30, 2004.

**B. State Teachers Retirement System**

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

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2004, members of STRS contributed 10 percent of their wages to the STRS. The District contributed an amount equal to 14 percent of their wages. The District has paid all contributions required through June 30, 2004.

**6. RISK MANAGEMENT**

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

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

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

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

**B. Self Insurance**

The District was self insured for dental and vision benefits to employees. The District established a Self Insurance internal service fund to account for and finance the dental and vision benefits program. Under the program, the Self Insurance fund provides coverage up to a maximum of \$1,000 per individual, per year for dental insurance and various limits of coverage per individual, per year for vision insurance based on the service provided. The District reimburses the individuals for dental and vision services received up to their maximum limits.

A comparison of Self Insurance Fund cash and investments to the actuary-measured liability as of December 31, 2004 follows:

		2004
Cash and investments	\$	32,991
Actuarial liabilities		3,367

**C. Health and Life Insurance Programs**

The District entered into an agreement with the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) for its self insured medical and life programs. OME-RESA provides jointly administrated benefit programs for schools. OME-RESA has designated Self Funded Plans, Inc. of Cleveland as their claims administrator. Interfund rates are charged based on claims approved by the claims administrator.

A comparison of Self Insurance Fund cash and investments to the actuary-measured liability as of December 31, 2004 follows:

		2003
Cash and investments	\$	267,535
Actuarial liabilities		142,058

**7. PUBLIC ENTITY RISK POOL**

**Workers' Compensation**

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

**8. STATE SCHOOL FUNDING DECISION**

On December 11, 2003, 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

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

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

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

**9. NONCOMPLIANCE**

The debt covenant for the Ohio Energy Conservation Financing Program requires the District to prepare, and an independent Ohio registered architect or engineer to certify, an annual report documenting the reduction in energy consumption and cost savings attributed to energy conservation measures. The District did not prepare this report.

**10. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. The amount set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Acquisitions	Budget Stabilization
Set Aside Cash balance as of June 30, 2004			\$ 92,894
Current Year Set-aside Requirement	\$ 122,179	\$ 122,179	-
Qualifying Disbursements	(140,405)	(255,871)	
Total	\$ (18,226)	\$ (133,692)	\$ 92,894
Cash Balance Carried Forward to Fiscal Year 2005			\$ 92,894

Although the District has qualifying disbursements during the year that reduced the set-aside requirements below zero. Actual cash balances in excess of required set-aside for textbooks and capital acquisitions may be carried forward to offset the set-aside requirements of future years.

**11. LONG-TERM OBLIGATIONS**

The District had the following long term debt obligations at June 30, 2004:

FY 1987 School Building Addition Bonds

On July 1, 1986, the District issued \$1,800,000 in voted general obligation bonds for constructing a building addition. The bonds were issued under the authority of Ohio Revised Code section 133.09 for

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

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

a twenty-two year period, with final maturity in fiscal year 2009. The bonds are being retired through the debt service fund.

FY 2001 Energy Conservation Loan

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

The following is a description of the District's general obligation debt outstanding as of June 30, 2003:

	Interest Rate	Outstanding 7/1/03	Retired	Outstanding 6/30/04
G.O. Bonds Payable	8.25%	\$ 480,000	\$ (80,000)	\$ 400,000
Energy Conservation Loan	6.65%	161,704	(17,151)	144,553
<i>Total</i>		\$ 641,704	\$ (97,151)	\$ 544,553

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

Fiscal Year Ending	Principal	Interest	Total
2005	\$ 98,364	\$ 38,994	\$ 137,358
2006	99,634	31,124	130,758
2007	100,992	23,166	124,158
2008	102,431	15,128	117,559
2009	103,994	6,964	110,958
2010-2011	39,138	2,348	41,486
Total	\$ 544,553	\$ 117,724	\$ 662,277





## **Auditor of State Betty Montgomery**

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

Hopewell-Loudon Local School District  
Seneca County  
290 North County Road 7  
P.O. Box 400  
Bascom, Ohio 44809-0400

To the Board of Education:

We have audited the financial statements of Hopewell-Loudon Local School District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 18, 2005, in which we noted that the District prepares its financial report on a basis of accounting formally prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. 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 directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 18, 2005.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated February 18, 2005.

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

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

**Betty Montgomery**  
Auditor of State

February 18, 2005

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT  
SENECA 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 Revised Code § 117.38 provides that each public office shall 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 § 117-2-03 further clarifies the requirements of the Ohio Revised Code § 117.38.

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

We recommend the District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

Ohio Energy Conservation Financing Program (HB 264-1985), see also Ohio Revised Code §§ 133.06 and 3313.372 includes a debt covenant requiring the District to prepare and maintain an annual report documenting the reduction in energy consumption and cost savings attributed to the above program. This report must be reviewed and certified by an independent Ohio registered architect or engineer.

The District failed to prepare the aforementioned annual report. We recommend the District prepare and submit the required report.

**FINDING NUMBER 2004-003**

**Reportable Condition - Student Activity Records**

Sales Project Potential forms were not prepared for thirty percent of fundraising activities tested during the audit period. This weakness reduces the controls and accountability over student activities and can result in loss of revenue. To improve controls over student activities, we recommend Sales Project Potential forms be completed for all fundraising activities. District management and personnel involved with student activity accounting should review the Auditor of State's *Guidelines for Developing Policies for Student Activity Programs*, available under Publications at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT  
SENECA 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	ORC § 117.38 - District did not report on GAAP basis.	No	Not corrected. Repeated as Finding 2004-001.
2003-002	Ohio Energy Conservation Financing Program. Failure to submit annual report.	No	Not corrected. Repeated as Finding 2004-002.
2003-003	Reportable Condition: Student activity controls.	No	Not corrected. Repeated as Finding 2004-003.



**Auditor of State  
Betty Montgomery**

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 12, 2005**