



**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  
177 North Mill Street  
P.O. Box 514  
Dalton, Ohio 44618

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dalton Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dalton Local School District, Wayne County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

February 10, 2006

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The management's discussion and analysis of the Dalton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$353,574 which represents a 17.61% decrease from 2004.
- General revenues accounted for \$5,960,941 in revenue or 83.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,141,672 or 16.07% of total revenues of \$7,102,613.
- The District had \$7,456,187 in expenses related to governmental activities; \$1,141,672 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,960,941 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$5,776,460 in revenues and \$6,201,969 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$425,509 from \$92,928 to a deficit of \$332,581.
- The permanent improvement fund had \$196,069 in revenues and \$43,556 in expenditures. During fiscal year 2005, the permanent improvement fund's fund balance increased \$152,513 from \$52,526 to \$205,039.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for dental self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-53 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2005.

	<b>Net Assets</b>
	Governmental Activities
	<u>2005</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 3,442,551
Capital assets	<u>2,307,239</u>
Total assets	<u>5,749,790</u>
<b><u>Liabilities</u></b>	
Current liabilities	3,351,586
Long-term liabilities	<u>743,511</u>
Total liabilities	<u>4,095,097</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	2,278,141
Restricted	381,371
Unrestricted (deficit)	<u>(1,004,819)</u>
Total net assets	<u>\$ 1,654,693</u>

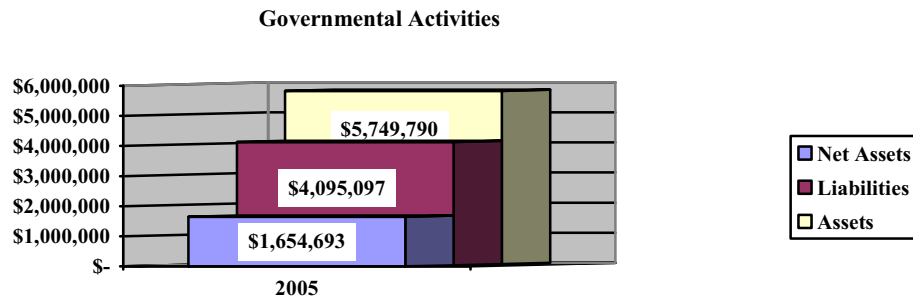
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$1,654,693. Of this total, \$381,371 is restricted in use.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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At year-end, capital assets represented 40.13% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,278,141. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$381,371, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,004,819.



The table below shows the change in net assets for fiscal year 2005. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2004 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	Governmental Activities 2005
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$ 305,223
Operating grants and contributions	827,104
Capital grants and contributions	9,345
General revenues:	
Property taxes	2,744,905
School District income tax	203,566
Grants and entitlements	2,950,936
Investment earnings	17,524
Other	44,010
<b>Total revenues</b>	<b>7,102,613</b>

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>	
Program expenses:	
Instruction:	
Regular	\$ 3,343,139
Special	524,762
Vocational	113,785
Other	2,794
Support services:	
Pupil	333,460
Instructional staff	479,400
Board of education	27,554
Administration	538,659
Fiscal	213,157
Operations and maintenance	713,980
Pupil transportation	372,843
Central	57,132
Food service operations	187,933
Operations of non-instructional services	187,006
Extracurricular activities	357,949
Interest and fiscal charges	<u>2,634</u>
Total expenses	<u>7,456,187</u>
Change in net assets	(353,574)
Net assets at beginning of year (restated)	<u>2,008,267</u>
Net assets at end of year	<u><u>\$ 1,654,693</u></u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$353,574. Total governmental expenses of \$7,456,187 were offset by program revenues of \$1,141,672 and general revenues of \$5,960,941. Program revenues supported 15.31% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 83.06% of total governmental revenue.

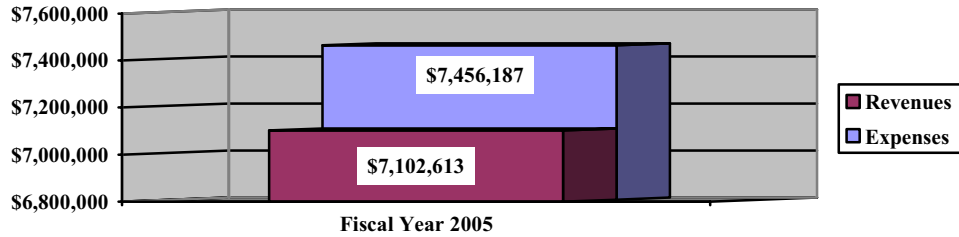
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,984,480 or 53.44% of total governmental expenses for fiscal 2005.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2004 have not been presented since they are not available.

**Governmental Activities**

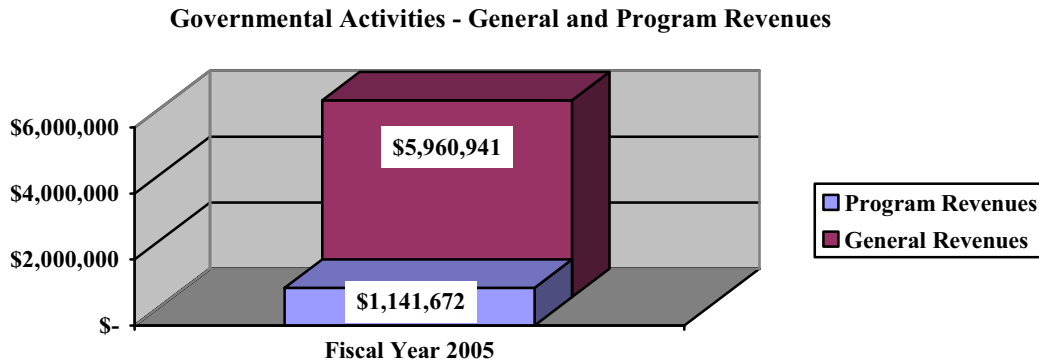
	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>		
Instruction:		
Regular	\$ 3,343,139	\$ 3,215,577
Special	524,762	194,370
Vocational	113,785	113,785
Other	2,794	2,794
Support services:		
Pupil	333,460	182,005
Instructional staff	479,400	443,830
Board of education	27,554	27,554
Administration	538,659	538,505
Fiscal	213,157	213,157
Operations and maintenance	713,980	692,851
Pupil transportation	372,843	355,933
Central	57,132	52,132
Food service operations	187,933	69,154
Operations of non-instructional services	187,006	(2,332)
Extracurricular activities	357,949	212,566
Interest and fiscal charges	2,634	2,634
<b>Total expenses</b>	<u>\$ 7,456,187</u>	<u>\$ 6,314,515</u>

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 88.48% of instructional activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.69%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2005.



**The District's Funds**

The District's governmental funds reported a combined fund balance deficit of \$41,770, which is lower than last year's total of \$249,366. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance (deficit) <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase (Decrease)	Percentage Change
General	\$ (332,581)	\$ 92,928	\$ (425,509)	(457.89) %
Permanent Improvement	205,039	52,526	152,513	290.36 %
Other Governmental	<u>85,772</u>	<u>103,912</u>	<u>(18,140)</u>	(17.46) %
Total	<u>\$ (41,770)</u>	<u>\$ 249,366</u>	<u>\$ (291,136)</u>	(116.75) %

**General Fund**

The District's general fund balance decreased \$425,509 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceed revenues for fiscal year 2005 by \$404,619. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	2005 <u>Amount</u>	2004 Cash Basis <u>Amount</u>	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 2,776,950	\$ 2,741,722	\$ 35,228	1.28 %
Tuition	3,301	8,109	(4,808)	(59.29) %
Earnings on investments	17,524	11,834	5,690	48.08 %
Intergovernmental	2,929,465	3,057,264	(127,799)	(4.18) %
Other revenues	<u>49,220</u>	<u>25,038</u>	<u>24,182</u>	96.58 %
Total	<u>\$ 5,776,460</u>	<u>\$ 5,843,967</u>	<u>\$ (67,507)</u>	(1.16) %
<b><u>Expenditures</u></b>				
Instruction	\$ 3,488,874	\$ 3,547,680	\$ (58,806)	(1.66) %
Support services	2,461,233	2,719,921	(258,688)	(9.51) %
Extracurricular activities	217,305	226,978	(9,673)	(4.26) %
Facilities acquisition and construction	35	-	35	100.00 %
Debt service	<u>13,632</u>	<u>-</u>	<u>13,632</u>	100.00 %
Total	<u>\$ 6,181,079</u>	<u>\$ 6,494,579</u>	<u>\$ (313,500)</u>	(4.83) %

***Permanent Improvement Fund***

The permanent improvement fund had \$196,069 in revenues and \$43,556 in expenditures. During fiscal year 2005, the permanent improvement fund's fund balance increased \$152,513 from \$52,526 to \$205,039.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$6,091,593 were decreased to \$5,779,695 in the final budget. Actual revenues and other financing sources for fiscal 2005 was \$5,779,697. This represents a \$311,896 decrease from original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,249,667 were decreased to \$6,222,011 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$6,216,546, which was \$5,465 less than the final budget appropriations.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$2,307,239 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 83,000	\$ 83,000
Land improvements	144,193	150,649
Building and improvements	1,606,471	1,683,474
Furniture and equipment	252,579	262,493
Vehicles	220,996	240,200
Total	\$ 2,307,239	\$ 2,419,816

The overall decrease in capital assets of \$112,577 is due to depreciation expense of \$159,988 exceeding capital outlays of \$47,411 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2005, the District had \$29,098 in capital lease obligations outstanding. Of this total, \$11,852 is due within one year and \$17,246 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2005	2004
Capital lease obligations	\$ 29,098	\$ 40,096
Total	\$ 29,098	\$ 40,096

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Current Financial Related Activities**

The District relies heavily upon revenue from grants, property taxes and the state foundation program. In August of 2004, the voters of the District passed a .75% income tax levy to help meet the increasing costs of educating our students. The District continues to strive to maintain the highest standards of excellence in educating our students, while carefully making the most effective use out of each dollar received. This is evidenced by the District being awarded an Excellent rating by the State Board of Education for the fourth consecutive year, a standard we aim to maintain.

The District has worked hard to contain costs but is faced with ever increasing mandates from the federal and state levels. Over the past few years, reduction in staffing and other cost containment measures have been taken. The District expects revenue to be sufficient to meet operating expenses in fiscal year 2006; however there are still many challenges to overcome.

House Bill 66 (Ohio 2006-07 budget) eliminates tangible personal property tax on machinery & equipment, inventory, furniture & fixtures and telephone utilities over five years. Through the phase out period, districts will be "held harmless" by way of fixed rate reimbursement. However, we will not see any increase in our personal property tax revenue and will have to find a way to totally replace it in the future.

The District has a significant and immediate need of capital improvements. Major repairs such as new school building roofs will need to be done soon, and several school buses need replaced. The District is also facing the issue of whether to continue to repair outdated buildings or explore the possibility of constructing new facilities.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither "adequate" nor "equitable." On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended, putting the onus of reform in the hands of the state legislators.

Traditionally, our community has been supportive of Dalton Local Schools. This continued support is needed to maintain educational excellence in the District.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Todd Johnson, Treasurer, Dalton Local School District, P.O. Box 514, Dalton, Ohio 44618.



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**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 460,722
Receivables:	
Taxes . . . . .	2,941,897
Accounts . . . . .	790
Intergovernmental . . . . .	28,999
Accrued interest . . . . .	1,290
Materials and supplies inventory . . . . .	8,853
Capital assets:	
Land . . . . .	83,000
Depreciable capital assets, net . . . . .	2,224,239
Capital assets, net. . . . .	2,307,239
 Total assets. . . . .	 5,749,790
 <b>Liabilities:</b>	
Accounts payable. . . . .	34,618
Accrued wages and benefits . . . . .	610,999
Pension obligation payable. . . . .	188,015
Intergovernmental payable . . . . .	18,509
Deferred revenue . . . . .	2,491,540
Claims payable . . . . .	7,905
Long-term liabilities:	
Due within one year. . . . .	60,530
Due within more than one year . . . . .	682,981
Total liabilities . . . . .	4,095,097
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	2,278,141
Restricted for:	
Capital projects . . . . .	209,765
Locally funded programs . . . . .	1,397
State funded programs . . . . .	18,049
Federally funded programs . . . . .	13,520
Student activities . . . . .	19,419
Other purposes . . . . .	119,221
Unrestricted (deficit). . . . .	(1,004,819)
 Total net assets . . . . .	 \$ 1,654,693

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,343,139	\$ 6,220	\$ 121,342	\$ -	\$ (3,215,577)
Special . . . . .	524,762	-	330,392	-	(194,370)
Vocational . . . . .	113,785	-	-	-	(113,785)
Other . . . . .	2,794	-	-	-	(2,794)
Support services:					
Pupil . . . . .	333,460	67,739	83,716	-	(182,005)
Instructional staff . . . . .	479,400	-	26,225	9,345	(443,830)
Board of education . . . . .	27,554	-	-	-	(27,554)
Administration . . . . .	538,659	-	154	-	(538,505)
Fiscal . . . . .	213,157	-	-	-	(213,157)
Operations and maintenance . . . . .	713,980	4,469	16,660	-	(692,851)
Pupil transportation . . . . .	372,843	-	16,910	-	(355,933)
Central . . . . .	57,132	-	5,000	-	(52,132)
Operation of non-instructional services:					
Food service operations . . . . .	187,933	118,779	-	-	(69,154)
Other non-instructional services . . . . .	187,006	-	189,338	-	2,332
Extracurricular activities . . . . .	357,949	108,016	37,367	-	(212,566)
Interest and fiscal charges . . . . .	2,634	-	-	-	(2,634)
<b>Total governmental activities . . . . .</b>	<b>\$ 7,456,187</b>	<b>\$ 305,223</b>	<b>\$ 827,104</b>	<b>\$ 9,345</b>	<b>(6,314,515)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					2,570,241
Capital projects . . . . .					174,664
School district income tax . . . . .					203,566
Grants and entitlements not restricted to specific programs . . . . .					2,950,936
Investment earnings . . . . .					17,524
Miscellaneous . . . . .					44,010
<b>Total general revenues . . . . .</b>					<b>5,960,941</b>
Change in net assets . . . . .					(353,574)
<b>Net assets at beginning of year (restated) . . . . .</b>					<b>2,008,267</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 1,654,693</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 190,010	\$ 132,305	\$ 322,315
Receivables:				
Taxes . . . . .	2,763,571	178,326	-	2,941,897
Accounts . . . . .	150	-	640	790
Accrued interest . . . . .	1,290	-	-	1,290
Intergovernmental . . . . .	-	-	28,999	28,999
Materials and supplies inventory . . . . .	2,200	-	6,653	8,853
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	116,201	-	-	116,201
Total assets . . . . .	<u>\$ 2,883,412</u>	<u>\$ 368,336</u>	<u>\$ 168,597</u>	<u>\$ 3,420,345</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 11,018	\$ 221	\$ 23,379	\$ 34,618
Accrued wages and benefits . . . . .	566,318	-	44,681	610,999
Compensated absences payable . . . . .	41,757	-	-	41,757
Pension obligation payable . . . . .	174,760	-	13,255	188,015
Intergovernmental payable . . . . .	16,999	-	1,510	18,509
Deferred revenue . . . . .	2,405,141	163,076	-	2,568,217
Total liabilities . . . . .	<u>3,215,993</u>	<u>163,297</u>	<u>82,825</u>	<u>3,462,115</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	3,859	97,437	17,221	118,517
Reserved for materials and supplies inventory . . . . .	2,200	-	6,653	8,853
Reserved for tax revenue available for appropriation . . . . .	200,000	15,250	-	215,250
Reserved for textbooks . . . . .	198,247	-	-	198,247
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(736,887)	-	-	(736,887)
Special revenue funds . . . . .	-	-	61,898	61,898
Capital projects funds . . . . .	-	92,352	-	92,352
Total fund balances (deficit) . . . . .	<u>(332,581)</u>	<u>205,039</u>	<u>85,772</u>	<u>(41,770)</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,883,412</u>	<u>\$ 368,336</u>	<u>\$ 168,597</u>	<u>\$ 3,420,345</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances (deficit)</b>		\$	(41,770)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,307,239
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	76,467	
Accounts receivable		210	
		76,677	
Total			76,677
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			14,301
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(672,656)	
Capital lease payable		(29,098)	
		(701,754)	
Total			(701,754)
<b>Net assets of governmental activities</b>		\$	1,654,693

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,776,950	\$ 174,598	\$ -	\$ 2,951,548
Tuition. . . . .	3,301	-	-	3,301
Charges for services. . . . .	-	-	118,779	118,779
Earnings on investments. . . . .	17,524	-	-	17,524
Extracurricular. . . . .	-	-	175,800	175,800
Classroom materials and fees . . . . .	1,791	-	-	1,791
Other local revenues. . . . .	47,429	-	1,937	49,366
Intergovernmental - state . . . . .	2,928,478	21,471	268,844	3,218,793
Intergovernmental - federal. . . . .	987	-	567,591	568,578
Total revenue . . . . .	<u>5,776,460</u>	<u>196,069</u>	<u>1,132,951</u>	<u>7,105,480</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,145,752	-	123,152	3,268,904
Special. . . . .	226,765	-	312,768	539,533
Vocational. . . . .	113,563	-	-	113,563
Other . . . . .	2,794	-	-	2,794
Support services:				
Pupil. . . . .	173,458	-	158,797	332,255
Instructional staff . . . . .	422,555	-	50,389	472,944
Board of education . . . . .	26,848	-	-	26,848
Administration. . . . .	535,740	-	132	535,872
Fiscal . . . . .	236,325	-	-	236,325
Operations and maintenance. . . . .	677,209	-	17,717	694,926
Pupil transportation . . . . .	336,966	-	15,859	352,825
Central. . . . .	52,132	-	5,000	57,132
Operation of non-instructional services:				
Food service operations . . . . .	-	-	180,785	180,785
Other non-instructional services . . . . .	-	-	187,006	187,006
Extracurricular activities. . . . .	217,305	-	120,376	337,681
Facilities acquisition and construction . . . . .	35	43,556	-	43,591
Debt service:				
Principal retirement . . . . .	10,998	-	-	10,998
Interest and fiscal charges . . . . .	2,634	-	-	2,634
Total expenditures . . . . .	<u>6,181,079</u>	<u>43,556</u>	<u>1,171,981</u>	<u>7,396,616</u>
Excess of revenues over (under) expenditures. . . . .	<u>(404,619)</u>	<u>152,513</u>	<u>(39,030)</u>	<u>(291,136)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	20,890	20,890
Transfers (out) . . . . .	(20,890)	-	-	(20,890)
Total other financing sources (uses) . . . . .	<u>(20,890)</u>	<u>-</u>	<u>20,890</u>	<u>-</u>
Net change in fund balances . . . . .	(425,509)	152,513	(18,140)	(291,136)
<b>Fund balances at</b>				
<b>beginning of year (restated). . . . .</b>	<u>92,928</u>	<u>52,526</u>	<u>103,912</u>	<u>249,366</u>
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ (332,581)</u>	<u>\$ 205,039</u>	<u>\$ 85,772</u>	<u>\$ (41,770)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	(291,136)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 47,411	
Current year depreciation	(159,988)	
Total		(112,577)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(3,077)	
Accounts receivable	210	
Total		(2,867)
Repayment of capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities liabilities in the statement of net assets.		
		10,998
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are are not reported as expenditures in governmental funds.		
		49,885
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(7,877)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(353,574)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,918,026	\$ 2,768,520	\$ 2,768,520	\$ -
Tuition. . . . .	3,479	3,301	3,301	-
Earnings on investments. . . . .	22,473	21,322	21,323	1
Classroom materials and fees . . . . .	1,887	1,790	1,791	1
Other local revenues. . . . .	54,052	51,283	51,283	-
Intergovernmental - State . . . . .	3,086,622	2,928,478	2,928,478	-
Intergovernmental - Federal . . . . .	1,040	987	987	-
Total revenue . . . . .	<u>6,087,579</u>	<u>5,775,681</u>	<u>5,775,683</u>	<u>2</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,149,956	3,135,970	3,135,797	173
Special. . . . .	239,012	237,951	237,812	139
Vocational. . . . .	116,704	116,186	116,186	-
Other. . . . .	2,806	2,794	2,794	-
Support services:				
Pupil. . . . .	175,493	174,714	174,354	360
Instructional staff . . . . .	423,090	421,211	420,967	244
Board of education . . . . .	27,594	27,471	27,373	98
Administration. . . . .	547,453	545,022	544,888	134
Fiscal . . . . .	236,429	235,379	235,379	-
Operations and maintenance. . . . .	706,053	702,918	699,257	3,661
Pupil transportation . . . . .	334,342	332,858	332,202	656
Central. . . . .	51,585	51,356	51,356	-
Extracurricular activities. . . . .	218,225	217,256	217,256	-
Facilities acquisition and construction. . . . .	35	35	35	-
Total expenditures . . . . .	<u>6,228,777</u>	<u>6,201,121</u>	<u>6,195,656</u>	<u>5,465</u>
Excess of revenues under expenditures. . . . .	<u>(141,198)</u>	<u>(425,440)</u>	<u>(419,973)</u>	<u>5,467</u>
<b>Other financing sources (uses):</b>				
Transfers (out) . . . . .	(20,890)	(20,890)	(20,890)	-
Advances in . . . . .	4,014	4,014	4,014	-
Total other financing sources (uses) . . . . .	<u>(16,876)</u>	<u>(16,876)</u>	<u>(16,876)</u>	<u>-</u>
Net change in fund balance . . . . .	(158,074)	(442,316)	(436,849)	5,467
<b>Fund balance at beginning of year . . . . .</b>	499,698	499,698	499,698	-
<b>Prior year encumbrances appropriated . . . . .</b>	47,187	47,187	47,187	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 388,811</u>	<u>\$ 104,569</u>	<u>\$ 110,036</u>	<u>\$ 5,467</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	<u>\$ 22,206</u>
<b>Liabilities:</b>	
Claims payable . . . . .	<u>7,905</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u><u>14,301</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 41,657
<b>Operating expenses:</b>	
Claims. . . . .	49,534
Operating loss . . . . .	(7,877)
<b>Net assets at beginning of year (restated) .</b>	<b>22,178</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 14,301</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 41,657
Cash payments for claims. . . . .	<u>(45,558)</u>
Net cash used in operating activities . . . . .	<u>(3,901)</u>
Net decrease in cash and cash equivalents . . . . .	(3,901)
<b>Cash and cash equivalents at beginning of year. . .</b>	<u>26,107</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 22,206</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (7,877)
Changes in assets and liabilities: Increase in claims payable . . . . .	<u>3,976</u>
Net cash used in operating activities . . . . .	<u><u>\$ (3,901)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 2,500	\$ 68,838
Receivables:		
Accounts . . . . .	-	435
Total assets . . . . .	2,500	\$ 69,273
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 4,390
Due to students . . . . .	-	64,883
Total liabilities . . . . .	-	\$ 69,273
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	2,500	
Total net assets . . . . .	\$ 2,500	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions . . . . .	\$ 2,500
<b>Deductions:</b>	
Scholarships awarded . . . . .	5,000
Change in net assets . . . . .	(2,500)
<b>Net assets at beginning of year. . . . .</b>	<b>5,000</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 2,500</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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, 2004 was 1,007. The District employed 76 certified employees and 46 non-certified 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINTLY GOVERNED ORGANIZATION*

The Tri-County Computer Services Association

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, 2005, the District paid \$80,053 to TCCSA for basic service charges.

*PUBLIC ENTITY RISK POOLS*

The Wayne County Schools Council Health Care Benefit Program

The Wayne County Schools Council Health Care Benefit Program (Council) 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 Council. Council revenues are generated from charges for services received from participating school districts, based on the established premium 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.

*INSURANCE POOLS*

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.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

*General Fund* - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Permanent Improvement Fund* - The permanent improvement fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

*Internal Service Fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides dental benefits to employees.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the full accrual economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes (see Note 7), grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, income taxes, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Wayne County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation for all funds must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original and final appropriated amounts. All supplemental appropriations were legally enacted by the Board.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statements present comparisons at the fund and function level of expenditures as elected by the District Treasurer.

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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 non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005 investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, U.S. Treasury notes and U.S. Government money market accounts. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$17,524, which includes \$8,818 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and the consumption method on the government wide financial statements.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$2,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	8 - 35 years
Vehicles	15 years

**I. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**K. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property taxes unavailable for appropriation, textbooks and capital acquisitions. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**L. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. Estimates**

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

**O. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principle**

For the fiscal year ended June 30, 2005, the District has presented for the first time its basic financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the District has converted its governmental funds to the modified accrual basis of accounting and its internal service fund to the accrual basis of accounting. This conversion required certain adjustments be recorded at June 30, 2004 cash fund balances as previously reported to reflect the prior years effect of adopting these new accounting principles. The restatement to the opening balances is as follows:



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

	Cash Fund Balance at June 30, 2004	Adjustments	Restated Fund Balance/ Retained Earnings July 1, 2004
Governmental Funds:			
General	\$ 546,885	\$ (453,957)	\$ 92,928
Special Revenue	136,309	(32,397)	103,912
Capital Projects	31,632	20,894	52,526
Total governmental funds	<u>714,826</u>	<u>(465,460)</u>	<u>249,366</u>
Proprietary Fund:			
Internal Service	<u>26,107</u>	<u>(3,929)</u>	<u>22,178</u>
Total proprietary funds	<u>26,107</u>	<u>(3,929)</u>	<u>22,178</u>
Fiduciary Funds:			
Expendable Trust	5,000	-	5,000
Agency	<u>58,880</u>	<u>(2,351)</u>	<u>56,529</u>
Total fiduciary funds	<u>63,880</u>	<u>(2,351)</u>	<u>61,529</u>
Grand Total	<u>\$ 804,813</u>	<u>\$ (471,740)</u>	<u>\$ 333,073</u>

GAAP creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2004, caused by the conversion to the accrual basis of accounting.

As stated previously, GAAP requires governmental funds to be presented as either major or nonmajor funds. The restated fund balances of the governmental funds are classified as follows for reporting on the government-wide financial statements:

	Major	Nonmajor	Total
Governmental Funds			
General	\$ 92,928	\$ -	\$ 92,928
Permanent Improvement	52,526	-	52,526
Special Revenue	<u>-</u>	<u>103,912</u>	<u>103,912</u>
Total governmental fund balance	<u>\$ 145,454</u>	<u>\$ 103,912</u>	<u>\$ 249,366</u>

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2004	\$ 249,366
GASB 34 adjustments:	
Long-term, (deferred) assets	79,544
Capital Assets	2,419,816
Long-term liabilities	(762,637)
Internal Service Fund	22,178
Governmental activities net assets, June 30, 2004	\$ 2,008,267

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
<u>Major Fund</u>	
General fund	\$ 332,581
<u>Nonmajor Funds</u>	
Food Service	3,403
IDEA	1,808
Title I	4,182
Title VI	968

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS 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 five 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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Interim deposits are deposits of interim monies. Interim moneys 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 passbook accounts.

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

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 two 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 State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$484. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2005, the District’s bank balance was \$23,311. The entire bank balance was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**B. Investments**

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	Greater than 24 months
FHLB	\$ 198,298	\$ 24,852	\$ 24,789	\$ 99,094	\$ 49,563
U.S. Treasury note	49,528	-	-	-	49,528
U.S. Government money market	196,579	196,579	-	-	-
STAR Ohio	87,171	87,171	-	-	-
	<u>\$ 531,576</u>	<u>\$ 308,602</u>	<u>\$ 24,789</u>	<u>\$ 99,094</u>	<u>\$ 99,091</u>

The weighed average maturity of investments is .70.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District’s investments, except for STAR Ohio, were rated AAA and Aaa by Standard, Poor’s and Moody’s Investor Services, respectively. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District’s investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the District.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 198,298	37.30
U.S Treasury note	49,528	9.32
U.S. Government money market	196,579	36.98
STAR Ohio	87,171	16.40
	<u>\$ 531,576</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 484
Investments	<u>531,576</u>
Total	<u>\$ 532,060</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 460,722
Private-purpose trust fund	2,500
Agency fund	<u>68,838</u>
Total	<u>\$ 532,060</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from general fund to:	
Other governmental funds	\$ 20,890

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market 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.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Wayne County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$200,000 in the general fund and \$15,250 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$350,000 in the general fund and \$26,000 in the permanent improvement fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 104,407,970	85.05	\$ 107,228,150	86.28
Public Utility Personal	4,035,940	3.29	4,450,190	3.58
Tangible Personal Property	<u>14,319,562</u>	<u>11.66</u>	<u>12,594,544</u>	<u>10.14</u>
Total	<u>\$ 122,763,472</u>	<u>100.00</u>	<u>\$ 124,272,884</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.60		\$ 43.60	

**NOTE 7- INCOME TAXES**

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and will continue for an indefinite period of time. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities</b>	
Taxes	\$ 2,941,897
Accounts	790
Accrued interest	1,290
Intergovernmental	<u>28,999</u>
Total	<u>\$ 2,972,976</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 83,000	\$ -	\$ -	\$ 83,000
Total capital assets, not being depreciated	<u>83,000</u>	<u>-</u>	<u>-</u>	<u>83,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	272,900	7,373	-	280,273
Buildings and improvements	4,187,299	12,170	-	4,199,469
Furniture and equipment	523,571	18,368	-	541,939
Vehicles	615,122	9,500	-	624,622
Total capital assets, being depreciated	<u>5,598,892</u>	<u>47,411</u>	<u>-</u>	<u>5,646,303</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(122,251)	(13,829)	-	(136,080)
Buildings and improvements	(2,503,825)	(89,173)	-	(2,592,998)
Furniture and equipment	(261,078)	(28,282)	-	(289,360)
Vehicles	(374,922)	(28,704)	-	(403,626)
Total accumulated depreciation	<u>(3,262,076)</u>	<u>(159,988)</u>	<u>-</u>	<u>(3,422,064)</u>
Governmental activities capital assets, net	<u>\$ 2,419,816</u>	<u>\$ (112,577)</u>	<u>\$ -</u>	<u>\$ 2,307,239</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 65,461
Special	1,518
<u>Support Services:</u>	
Pupil	885
Instructional Staff	10,540
Board of Education	706
Administration	3,719
Fiscal	1,795
Operations and Maintenance	11,357
Pupil Transportation	30,773
Extracurricular Activities	27,592
Food Service Operation	<u>5,642</u>
Total depreciation expense	<u>\$ 159,988</u>

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

In a prior year, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)**

Capital assets consisting of equipment have been capitalized in the amount of \$56,681. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$10,998 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Year Ending June 30</u>	<u>Equipment</u>
2006	\$ 13,632
2007	13,632
2008	<u>4,544</u>
<u>Total minimum lease payment</u>	<u>31,808</u>
Less: amount representing interest	<u>(2,710)</u>
Present value of minimum lease payments	<u>\$ 29,098</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Capital lease payable	\$ 40,096	\$ -	\$ (10,998)	\$ 29,098	\$ 11,852
Compensated absences	<u>770,852</u>	<u>28,972</u>	<u>(85,411)</u>	<u>714,413</u>	<u>48,678</u>
Total long-term obligations, governmental activities	<u>\$ 810,948</u>	<u>\$ 28,972</u>	<u>\$ (96,409)</u>	<u>\$ 743,511</u>	<u>\$ 60,530</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$11,184,560 and an unvoted debt margin of \$124,273.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District has contracted with SORSA (see Note 2.A.) to provide coverage in the following amounts:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 3,000,000	\$ 0
Annual aggregate	5,000,000	0
Fire legal liability:		
Each occurrence	500,000	0
Employee benefits liability:		
Each occurrence	1,000,000	0
Medical liability:		
Per person	1,000	0
Per accident	5,000	0
Errors and omissions:		
Each occurrence	3,000,000	5,000
Annual aggregate	3,000,000	5,000
Crime coverage	50,000	1,000
Fleet:		
Liability	3,000,000	0
Medical liability:		
Per person	1,000	0
Per accident	5,000	0
Uninsured motorist	50,000	0
Comprehensive	Actual cash value	1,000
Building and contents	13,700,786	1,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

**B. Medical Insurance**

The District participates in the Wayne County Schools Council Health Care Benefit Program (Council), a shared risk pool (see Note 2.A.) to provide employees with 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.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. Dental Insurance**

Dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$7,905 reported in the internal service fund at June 30, 2005, is based on an estimate provided by Employee Security Plans (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the current fiscal year is as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 3,929	\$ 49,534	\$ (45,558)	\$ 7,905

This is the first time the District presented its basic financial statements in accordance with generally accepted accounting principles resulting in one year of activity presented. In future reports both the current fiscal year and the prior fiscal year will be disclosed.

**D. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$168,648, \$171,034 and \$155,356, respectively; 62.82% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$62,704 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability.

**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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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. 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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligation to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$527,804, \$531,257, and \$325,578, respectively; 85.35% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$77,328 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$6,014 made by the District and \$5,805 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$40,600 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268,739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$72,530 during the 2005 fiscal year.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (436,849)
Net adjustment for revenue accruals	777
Net adjustment for expenditure accruals	6,260
Net adjustment for other sources/uses	(4,014)
Adjustment for encumbrances	<u>8,317</u>
GAAP basis	<u>\$ (425,509)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 16 – CONTINGENCIES - (Continued)**

**B. Litigation**

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ 136,754	\$ -
Current year set-aside requirement	139,722	139,722
Current year offsets	-	(185,310)
Qualifying disbursements	<u>(78,229)</u>	<u>(91,843)</u>
Total	<u>\$ 198,247</u>	<u>\$ (137,431)</u>
Balance carried forward to FY 2006	<u>\$ 198,247</u>	<u>\$ -</u>

**DALTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 17 - STATUTORY RESERVES - (Continued)**

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirements for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for textbooks	\$ 198,247
Amount to limit set-aside to available cash	<u>(82,046)</u>
Total restricted assets	<u>\$ 116,201</u>

**NOTE 18 - CONTRACTUAL COMMITMENTS**

The District had entered into contracts for asphalt resurfacing and roof replacements as of June 30, 2005. The District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Amount Outstanding</u>
Roofing Contractors, Inc.	\$ 68,000
Apollo Roofing, Inc.	85,671
Northstar Asphalt, Inc.	<u>135,500</u>
Total Contractual Commitments	<u>\$ 289,171</u>



**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS THROUGH ENTITY NUMBER	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>(Passed Through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1-04 C1-S1-05	84.010	\$13,415 <u>213,077</u>		\$17,389 <u>206,188</u>	
Total Title I Grants to Local Educational Agencies			226,492		223,577	
Special Education - Grants to States	6B-SF-2005	84.027	222,608		220,810	
Safe and Drug Free Schools and Communities State Grant	DR-S1-2005	84.186	3,945		6,379	
Innovative Education Program Strategies	C2-S1-2004 C2-S1-2005	84.298	991 <u>11,878</u>		360 <u>11,933</u>	
Total Innovative Education Program Strategies			12,869		12,293	
Education Technology State Grants	TJ-S1-2004 TJ-S1-2005	84.318	184 <u>6,223</u>		186 <u>6,223</u>	
Total Education Technology State Grants			6,407		6,409	
Improving Teacher Quality State Grant	TR-S1-2004 TR-S1-2005	84.367	5,059 <u>49,284</u>		2,552 <u>47,070</u>	
Total Improving Teacher Quality State Grant			54,343		49,622	
Total U.S. Department of Education			526,664		519,090	
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>(Passed Through Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$12,149		\$12,149
National School Lunch Program	N/A	10.555	<u>45,452</u>		<u>45,452</u>	
Total U.S. Department of Agriculture - Child Nutrition Cluster			45,452	12,149	45,452	12,149
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>(Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	N/A	93.778	<u>1,272</u>		<u>1,272</u>	
<b>Total</b>			<b><u>573,388</u></b>	<b><u>12,149</u></b>	<b><u>565,814</u></b>	<b><u>12,149</u></b>

See Accompanying Notes to the Federal Awards Receipts and Expenditures Schedule.

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

Program regulations do not require the [entity type] to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D – MEDICAL ASSISTANCE PROGRAM**

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program are commingled with local funds. It is assumed federal monies are expended first.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Dalton Local School District  
Wayne County  
177 North Mill Street  
P.O. Box 514  
Dalton, Ohio 44618

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dalton Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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 10, 2006



## Auditor of State Betty Montgomery

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

Dalton Local School District  
Wayne County  
177 North Mill Street  
P.O. Box 514  
Dalton, Ohio 44618

To the Board of Education:

#### Compliance

We have audited the compliance of Dalton Local School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 10, 2006

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Grants to States, CFDA #84.027 & Title I Grants to Local Educational Agencies, CFDA #84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**DALTON LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i>
2004-001	Ohio Rev. Code Section 117.38 – filing a financial report each year & Ohio Administrative Code Section 117-2-03 (B) – preparing annual financial report in accordance with generally accepted accounting principles.	Yes	





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
MARCH 14, 2006**