



**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2002-2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Manchester Local School District
Summit County
6075 Manchester Road
Akron, Ohio 44319

To the Board of Education:

We have audited the accompanying financial statements of the Manchester Local School District, Summit County, Ohio, (the District) as of and for the years ended June 30, 2002 and 2001, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under section 117.26, Ohio Rev. Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 14, 2002

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Taxes	\$4,060,557	\$265,261		\$90,152		\$4,415,970
Intergovernmental	5,007,167	246,681		36,442		5,290,290
Food Service		1,070				1,070
Investments Earnings	23,010				\$978	23,988
Extracurricular Activities		124,083				124,083
Classroom Material and Fees	8,984	16,109				25,093
Miscellaneous	32,036	43,069			2,350	77,455
Total Cash Receipts	9,131,754	696,273	\$0	126,594	3,328	9,957,949
Cash Disbursements:						
Instruction:						
Regular	4,394,359	67,250		3,756	27	4,465,392
Special	401,415	181,331				582,746
Vocational Education	81,894					81,894
Adult/ Continuing	4,044				3,800	7,844
Support Services:						
Pupils	778,722	12,851				791,573
Instructional Staff	401,322	4,609				405,931
Board of Education	36,369					36,369
School Administration	877,591	41		686		878,318
Fiscal	387,571	4,015		733		392,319
Operations and Maintenance	917,827	227,050				1,144,877
Student Transportation	589,979	35,848				625,827
Support Services-Central	66,139	10,390				76,529
Instructional Services:						
Food Service Operations					489	489
Extracurricular Activities:						
Academic and Subject Oriented	49,112	65,375				114,487
Sports Oriented	221,330	120,387				341,717
Co-Curricular Activities	10,255	1,641				11,896
Facilities Acquisition and Construction Services:						
Building Improvement	187,249			31,771		219,020
Other Facilities Acquisition & Construction	34,954					34,954
Debt Service						
Repayment of Debt	476,090		510,101			986,191
Total Cash Disbursements	9,916,222	730,788	510,101	36,946	4,316	11,198,373
Total Cash Receipts Over/(Under) Cash Disbursements	(784,468)	(34,515)	(510,101)	89,648	(988)	(1,240,424)
Other Financing Sources (Uses)						
Sale and Loss of Assets	924					924
Proceeds from Sale of Notes	1,037,920					1,037,920
Transfers-In		29,626	510,101			539,727
Advances-In	2,085					2,085
Refund of Prior Year Expenditures	30,685					30,685
Transfers-Out	(510,101)	(29,626)				(539,727)
Advances-Out		(2,085)				(2,085)
Total Other Financing Sources (Uses)	561,513	(2,085)	510,101	0	0	1,069,529
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and and Other Financing Uses	(222,955)	(36,600)	0	89,648	(988)	(170,895)
Fund Cash Balances, July 1, 2001	363,203	224,499	0	61,027	49,080	697,809
Fund Cash Balances, June 30, 2002	\$140,248	\$187,899	\$0	\$150,675	\$48,092	\$526,914
Reserves for Encumbrances	\$59,743	\$20,697	\$0	\$124,011	\$0	\$204,451

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Receipts:				
Food Service	\$242,802			\$242,802
Extracurricular Activities			\$93,854	93,854
Classroom Materials and Fees	18,454			18,454
Total Operating Cash Receipts	<u>261,256</u>	<u>\$0</u>	<u>93,854</u>	<u>355,110</u>
Operating Cash Disbursements:				
Personal Services-Salaries	119,046			119,046
Employees Retirement and Insurance	30,260			30,260
Purchased Services	3,257	1,069,534		1,072,791
Supplies and Materials	161,952			161,952
Capital Outlay	139			139
Capital Outlay-Replacement	6,682			6,682
Other Objects	614	8,611	97,550	106,775
Total Operating Cash Disbursements	<u>321,950</u>	<u>1,078,145</u>	<u>97,550</u>	<u>1,497,645</u>
Operating (Loss)	<u>(60,694)</u>	<u>(1,078,145)</u>	<u>(3,696)</u>	<u>(1,142,535)</u>
Non-Operating Cash Receipts:				
Earnings on Investments	503	8,940	659	10,102
Miscellaneous	2,436	770,372	647	773,455
Intergovernmental	40,809			40,809
Total Non-Operating Cash Receipts	<u>43,748</u>	<u>779,312</u>	<u>1,306</u>	<u>824,366</u>
Excess of Cash Receipts (Under) Cash Disbursements	(16,946)	(298,833)	(2,390)	(318,169)
Transfers-In			5,965	5,965
Transfers-Out			(5,965)	(5,965)
Net Cash Receipts Over/(Under) Cash Disbursements	(16,946)	(298,833)	(2,390)	(318,169)
Fund Cash Balances, July 1, 2001	67,261	375,701	50,404	493,366
Fund Cash Balances, June 30, 2002	<u><u>\$50,315</u></u>	<u><u>\$76,868</u></u>	<u><u>\$48,014</u></u>	<u><u>\$175,197</u></u>
Reserves for Encumbrances	<u><u>\$0</u></u>	<u><u>\$900</u></u>	<u><u>\$150</u></u>	<u><u>\$1,050</u></u>

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:						
Taxes	\$4,050,707	\$282,778		\$90,097		\$4,423,582
Intergovernmental	4,586,324	289,987		92,157		4,968,468
Food Service		1,870				1,870
Investments Earnings	56,495				\$2,522	59,017
Extracurricular Activities		127,318				127,318
Classroom Material and Fees	9,982	19,069				29,051
Miscellaneous	46,494	48,548			5,768	100,810
Total Cash Receipts	8,750,002	769,570	\$0	182,254	8,290	9,710,116
Cash Disbursements:						
Instruction:						
Regular	4,174,745	70,926		57,038	1,029	4,303,738
Special	415,042	140,187				555,229
Vocational Education	64,851					64,851
Adult/ Continuing	3,753				1,251	5,004
Support Services:						
Pupils	717,150	19,884				737,034
Instructional Staff	370,132	2,648				372,780
Board of Education	15,142					15,142
School Administration	686,832	170		30		687,032
Fiscal	383,653	3,756		1,295		388,704
Operations and Maintenance	986,977	226,299		30,116		1,243,392
Student Transportation	546,759	50,520				597,279
Support Services-Central	65,674					65,674
Instructional Services:						
Food Service Operations					3,794	3,794
Extracurricular Activities:						
Academic and Subject Oriented	48,299	85,042				133,341
Sports Oriented	183,777	158,435				342,212
Co-Curricular Activities	10,300	1,496				11,796
Facilities Acquisition and Construction Services:						
Building Improvement	38,108			32,221		70,329
Other Facilities Acquisition & Construction	560,947					560,947
Debt Service						
Repayment of Debt			660,319			660,319
Total Cash Disbursements	9,272,141	759,363	660,319	120,700	6,074	10,818,597
Total Cash Receipts Over/(Under) Cash Disbursements	(522,139)	10,207	(660,319)	61,554	2,216	(1,108,481)
Other Financing Sources (Uses)						
Sale and Loss of Assets	1,022					1,022
Proceeds from Sale of Notes	1,104,251					1,104,251
Transfers-In	237	46,090	660,319			706,646
Advances-In	14,919	2,085		31,771		48,775
Refund of Prior Year Expenditures	43,633	825				44,458
Transfers-Out	(647,564)	(9,412)		(52,288)		(709,264)
Advances-Out	(33,856)	(14,919)				(48,775)
Total Other Financing Sources (Uses)	482,642	24,669	660,319	(20,517)	0	1,147,113
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and and Other Financing Uses						
	(39,497)	34,876	0	41,037	2,216	38,632
Fund Cash Balances, July 1, 2000 (Restated, Note 2)	402,700	189,623	0	19,990	46,864	659,177
Fund Cash Balances, June 30, 2001	\$363,203	\$224,499	\$0	\$61,027	\$49,080	\$697,809
Reserves for Encumbrances	\$183,827	\$16,177	\$0	\$31,771	\$0	\$231,775

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Receipts:				
Food Service	\$248,791			\$248,791
Extracurricular Activities			\$98,188	98,188
Classroom Materials and Fees	20,470			20,470
Total Operating Cash Receipts	269,261	\$0	98,188	367,449
Operating Cash Disbursements:				
Personal Services-Salaries	115,440			115,440
Employees Retirement and Insurance	30,093			30,093
Purchased Services	2,775	747,958		750,733
Supplies and Materials	158,836			158,836
Capital Outlay	1,453			1,453
Capital Outlay-Replacement	3,838			3,838
Other Objects	588	8,917	95,653	105,158
Total Operating Cash Disbursements	313,023	756,875	95,653	1,165,551
Operating Income/(Loss)	(43,762)	(756,875)	2,535	(798,102)
Non-Operating Cash Receipts:				
Earnings on Investments	937	24,425	2,011	27,373
Miscellaneous	1,396	716,846	3,423	721,665
Intergovernmental	37,326			37,326
Refund of Prior Years Expenditures	34	8	250	292
Total Non-Operating Cash Receipts	39,693	741,279	5,684	786,656
Excess of Cash Receipts Over/(Under) Cash Disbursements	(4,069)	(15,596)	8,219	(11,446)
Transfers-In	2,855			2,855
Transfers-Out			(237)	(237)
Net Cash Receipts Over/(Under) Cash Disbursements	(1,214)	(15,596)	7,982	(8,828)
Fund Cash Balances, July 1, 2000 (Restated, Note 2)	68,475	391,297	42,422	502,194
Fund Cash Balances, June 30, 2001	\$67,261	\$375,701	\$50,404	\$493,366
Reserves for Encumbrances	\$7,684	\$0	\$1,013	\$8,697

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

Average daily membership as of October 1, 2001 and 2000 was 1,430 and 1,422, respectively. The District employed 79 and 96 certificated employees and 80 and 103 non-certificated employees, respectively, on those respective dates.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all fund, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes for the organization. The District has no compound units.

The following entities which perform activities within the District boundaries for the benefit of its resident are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

Village of Franklin (Village) The District is not financially accountable for the Village nor is the Village fiscally dependent on the District.

Franklin Township (Township) The District is not financially accountable for the Township nor is the Township fiscally dependent on the District.

Parent Teacher Association (PTA) The District is not involved in the PTA's budgeting or management, nor is it responsible for any debt and has no influence over the organization.

The District is associated with three jointly governed organizations. These organizations are discussed in Note 14. These organizations are the Northeast Ohio Network for Educational Technology (NEONET), the Portage Lakes Career Center, and Interval Opportunity School.

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.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

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

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

Failing to follow accounting principles generally accepted in the United States of America is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

C. Cash and Investments

Investments in repurchase agreements are valued at cost. Investments in Money Markets are valued at share price, which is the price the investment could be sold for on June 30, 2002 and 2001.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

Emergency Levy Fund – This fund is used to account for the proceeds of the emergency operating levy. Originally passed in 1977, the levy is renewed for a five-year term. Expenditures in this fund are not restricted to specific purposes.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Athletics and Music Fund – This fund is used to account for the student activity participation in the activity, but do not have student management of the programs. This fund includes athletic programs as well as band, cheerleaders and similar types of activities.

3. Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Bond Retirement Fund – This fund is used to accumulate resources for the payment of principal and interest on the District's notes.

4. Capital Projects Funds

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Permanent Improvement Fund – This fund is used to account for all transactions related to the acquiring, construction or improving of permanent improvements.

5. Enterprise Funds

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

Lunchroom Fund – This fund is used to account for all revenues and expenses related to the provision of food services for the District's student and staff.

6. Internal Service Fund

This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. This fund is also used to account for funding and payment of health insurance claims of the District's Self Insurance employee health benefits account.

Self-Insurance Fund – This fund is used to account for the cost of medical, dental and prescription benefits provided to the District's employees.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

7. Expendable Trust Funds

This fund is used to account for resources restricted by legally binding trust agreements.

Special Trust Fund – This fund is used to account for monies held by the District in a trustee capacity for individuals and/or private organizations which benefit the student body or the local community.

8. Agency Funds

This fund is used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and/or other funds.

Student Managed Activity – This fund is used to account for those student activity programs which have student participation in the activity and have students involved in the management of the program.

E. Budgetary Process

1. Budget

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

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. Budgeted receipts as shown in Note 4 do not include July 1, 2001 and 2000, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources at the fund level for all funds.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

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

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

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

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

H. Total Columns on Financial Statements

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

2. RESTATEMENT OF PRIOR YEAR FUND BALANCES

The Manchester Alumni Association Scholarship Fund previously accounted for as an Expendable Trust Fund was reclassified as a Agency Fund due to the nature of activity.

The restatement to the beginning fund balance is as follows:

	Expendable Trust	Agency
Fund Balance as Stated at December 31, 2000	\$47,144	\$42,142
Fund Reclassification	(280)	280
Fund Balances as Stated at January 1, 2001	\$46,864	\$42,422

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

3. POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

3. POOLED CASH AND INVESTMENTS (Continued)

7. Certain banker's acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits - At June 30, 2002 and 2001, the carrying amounts of the District's deposits were \$55,554 and (\$34,129), respectively, and the bank balances were \$194,937 and \$153,569, respectively. As of June 30, 2002, \$182,456 of the bank balance was covered by federal depository insurance and \$12,481 was uncollateralized and uninsured. As of June 30, 2001, \$142,118 of the bank balance was covered by federal depository insurance and \$11,451 was uncollateralized and uninsured.

Investments

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

3. POOLED CASH AND INVESTMENTS (Continued)

2002	Category 3	Carrying Value
Repurchase Agreement	\$595,000	\$595,000
Money Market Fund		<u>51,557</u>
Total		<u>\$646,557</u>
2001		
Repurchase Agreement	\$860,000	\$860,000
Money Market Fund		<u>365,304</u>
Total		<u>\$1,225,304</u>

4. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,461,214	\$10,203,368	\$742,154
Special Revenue	679,447	725,899	46,452
Debt Service	193,755	510,101	316,346
Capital Projects	102,025	126,595	24,570
Enterprise	328,000	305,005	(22,995)
Internal Service	906,200	779,312	(126,888)
Fiduciary	77,000	104,453	27,453
Total	<u>\$11,747,641</u>	<u>\$12,754,733</u>	<u>\$1,007,092</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$9,615,296	\$10,486,066	(\$870,770)
Special Revenue	779,962	781,111	(1,149)
Debt Service	193,755	510,101	(316,346)
Capital Projects	131,088	160,957	(29,869)
Enterprise	395,262	321,952	73,310
Internal Service	991,787	1,079,045	(87,258)
Fiduciary	173,811	107,981	65,830
Total	<u>\$12,280,961</u>	<u>\$13,447,213</u>	<u>(\$1,166,252)</u>

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,290,556	\$9,899,145	\$608,589
Special Revenue	725,062	816,485	91,423
Debt Service	183,384	660,319	476,935
Capital Projects	251,892	182,254	(69,638)
Enterprise	321,000	311,809	(9,191)
Internal Service	677,000	741,279	64,279
Fiduciary	77,000	112,161	35,161
Total	\$11,525,894	\$12,723,452	\$1,197,558

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$9,676,697	\$10,103,532	(\$426,835)
Special Revenue	791,567	784,952	6,615
Debt Service	183,384	660,319	(476,935)
Capital Projects	192,651	162,721	29,930
Enterprise	385,473	320,708	64,765
Internal Service	1,061,339	756,875	304,464
Fiduciary	163,725	102,976	60,749
Total	\$12,454,836	\$12,892,083	(\$437,247)

5. NONCOMPLIANCE

Contrary to Ohio Revised Code Section 5705.10, the District had a significant amount of negative fund balances for the months of July through May throughout the fiscal years under audit.

Contrary to Ohio Revised Code Sections 5705.40 and 5705.41(B), certain fiscal year 2002 and 2001 appropriation modifications were approved by the Board of Education subsequent to June 30 in both fiscal years, which resulted in expenditures plus outstanding encumbrances in excess of appropriations.

Contrary to Ohio Revised Code Section 133.301, the District issued six different anticipation notes with maturity exceeding the maturity guidelines of this section.

6. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 1998.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

6. PROPERTY TAX (Continued)

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

The full tax rates applied to real property for the tax (calendar) years 2002 and 2001 were \$60.24 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$32.72 and \$32.88 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$37.36 and \$37.88 per \$1,000 of assessed valuation for all other real property.

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

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) years 2002 and 2001 was \$60.24 per \$1,000 of assessed valuation.

The Summit County Fiscal Officer collects property tax on behalf of all taxing districts within the county and periodically remits to the taxing districts their portions of the taxes collected.

7. INSURANCE

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll. Contribution rates are established by the STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,072,870, \$1,046,552, and \$990,464, respectively.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

8. DEFINED BENEFIT PENSION PLANS

B. School Employees Retirement System

The School 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 and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$418,763, \$354,818, and \$354,900, respectively.

9. POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002 and 2001, the retirement board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the District this amount equaled \$17,022 for the 2002 fiscal year and \$18,668 for the 2001 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.256 billion at June 30, 2001 (latest information available). For the year ended June 30, 2001, the net health care costs paid by the STRS were \$300,772,000 and eligible benefit recipients totaled 102,132.

For School Employees Retirement System (SERS), coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to maximum of 75 percent of the premium. For fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 9.81 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount of employer contributions used to fund health care including the surcharge equaled \$47,944.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (latest information available) were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the SERS's net assets available for payment of health care benefits was \$315.7 million. The number of participants receiving health care benefits was approximately 50,000.

10. HEALTH INSURANCE

The District provides major medical, hospitalization, vision, prescription drug, dental, and life insurance benefits to its employees through a third party administrator.

The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self Insurance Fund cash and investments to the actuarially-measured liability as of December 31 follows:

	<u>2002</u>	<u>2001</u>
Cash and investments	\$64,452	\$365,115
Actuarial liabilities	\$90,435	\$62,058

During 2002, the District paid approximately \$300,000 in 3 separate large claims. The District increased their rates charged to the employees by 15%. It is estimated that this will bring in an additional \$120,000 during fiscal year 2003.

11. CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002 or 2001.

12. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

12. STATE SCHOOL FUNDING DECISION (Continued)

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

13. SET-ASIDE REQUIREMENTS

State of Ohio House Bill 412 requires the District to set-aside a portion of the general operating resources for future use. For the fiscal years ended June 30, 2002 and 2001 the required set-asides were:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Totals
June 30, 2002				
Balances as of June 30, 2001	\$ (255,177)		\$ 112,518	\$ (142,659)
Current Year Set-aside Requirement	246,321	\$ 246,321		492,642
Current Year Offset		(90,152)		(90,152)
Elimination of Budget Stabilization Reserve			(112,510)	(112,510)
Qualifying Disbursements	<u>(371,964)</u>	<u>(277,682)</u>		<u>(649,646)</u>
Total as of June 30, 2002	<u>\$ (380,820)</u>	<u>\$ (121,513)</u>	<u>\$ 8</u>	<u>\$ (502,325)</u>
Balance carried forward to FY 2003	(380,820)		8	
Amount Restricted for School Bus Replacement				<u> </u>
Total Restricted Assets				<u><u>\$ 8</u></u>

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

13. SET-ASIDE REQUIREMENTS (Continued)

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>Totals</u>
June 30, 2001				
Balances as of June 30, 2000	\$ (18,141)		\$ 131,118	\$ 112,977
Current Year Set-aside Requirement	241,824	\$ 241,824		483,648
Current Year Offsets		(90,097)		(90,097)
Elimination of Budget Stabilization Reserve				
Qualifying Disbursements	<u>(478,860)</u>	<u>(258,681)</u>	<u>(18,600)</u>	<u>(756,141)</u>
Total as of June 30, 2001	<u>\$ (255,177)</u>	<u>\$ (106,954)</u>	<u>\$ (18,600)</u>	<u>\$ (249,613)</u>
Balance carried forward to FY 2002	(255,177)		(18,600)	
Amount Restricted for School Bus Replacement				<u> </u>
Total Restricted Assets				<u>\$ 112,518</u>

The balance as of June 30, 2002 does not reconcile to the prior year's report due to an error within the prior year's note.

As of June 30, 2002, the District had qualifying disbursements during the fiscal year that reduced the textbook and capital maintenance set-aside amounts below zero. The extra amount for the textbook reserve may be used to reduce the set-aside requirements of future fiscal years, while the extra amount for the capital maintenance reserve can not be carried forward.

14. JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Network for Educational Technology (NEONET)

NEONET is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Summit and Portage Counties. The primary function of NEONET is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by NEONET include student scheduling, registration, grade reporting and test scoring. Each member district pays an annual fee for the services provided by NEONET. NEONET is governed by a board of directors comprised of each Superintendent within the organization. The Summit County Educational Service Center serves as the fiscal agent of the organization and received funding from the State Department of Education. Each District has one vote in all matters and each member district's control over budgeting and financing of NEONET is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of NEONET is not dependent on the District's continued participation and no equity interest exists.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

14. JOINTLY GOVERNED ORGANIZATION (Continued)

Portage Lakes Career Center

The Portage Lakes Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the Board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. The District's students may attend the vocational school. Each school district's control is limited to its representation on the Board.

Interval Opportunity School

The Interval Opportunity School (the School) is a jointly governed organization made up of six area public Districts. The function of the School is to provide "at risk students" with possibly a last and better opportunity to succeed in both their academic and social maturation. Each member district pays an annual fee based on the number of students serviced by the School. The School is governed by a board of directors comprised of each superintendent from Coventry Local, Portage Lakes Career Center and Green Local. The Coventry Local School District serves as the fiscal agent of the School. The continued existence of the School is not dependent on the District's continued participation and no equity interest exists.

15. DEBT

Debt outstanding at June 30, 2002 was as follows:

	2002 Principal	2001 Principal
Bus Note - 3.39%	\$46,972	\$0
Bus Note - 4.86%	109,541	0
Bus Note - 4.58%	43,822	0
Bus Note - 4.37%	63,378	0
Bus Note - 3.39%	61,043	0
Energy Conservation Chiller Note - 4.99%	150,000	0
Energy Conservation Note - 4.75%	65,540	104,740
Energy Conservation Note - 5.54%	485,444	496,841
Total	<u>\$1,025,740</u>	<u>\$601,581</u>

Bond and note proceeds were used to finance the cost of building energy conservation improvements and to pay off the outstanding balances owed on several bus leases. All of the Bus Notes and the Chiller Note were initiated during fiscal year ended 2002. The 5.54% Energy Conservation Note was refinanced during fiscal year ended 2002.

All of the Bus Note agreements above are in violation of Ohio Rev. Code Section 133.301. See attached Schedule of Findings for noncompliance citation.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

15. DEBT (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30	Energy Conservation Improvement Note	Energy Conservation Chiller Note	Energy Conservation Improvement Note
2003	\$63,623	\$19,340	\$42,924
2004	63,623	19,340	28,202
2005	63,623	19,340	
2006	63,623	19,340	
2007	63,623	19,340	
2008	63,623	19,340	
2009	63,623	19,340	
2010	63,623	19,340	
2011	63,623	19,340	
2012	63,297	19,340	
Total Principal & Interest	635,904	193,400	71,126
Less amount representing interest	150,790	43,404	5,586
Total Principal	<u>\$485,444</u>	<u>\$150,000</u>	<u>\$65,540</u>

The District has entered into tax anticipation notes to purchase eight buses. The following is a schedule of future minimum lease payments of the notes and the present value of the net minimum note payments at June 30, 2002.

Year ending June 30:	2.80% Bus Note (2 buses)	3.39% Bus Note (3 buses)	4.86% Bus Note (2 buses)	4.58% Bus Note (1 bus)	4.37% Bus Note (2 buses)	4.75% Bus Note (1 bus)
2003	\$ 15,483	\$ 24,489	\$ 21,267	\$ 9,906	\$ 17,442	\$ 34,554
2004		24,490	21,267	9,906	17,442	34,554
2005			21,267	9,906	17,442	
2006			21,267	9,906	17,441	
2007			21,267	9,906		
2008			21,268			
Total minimum note payments	15,483	48,979	127,603	49,530	69,767	69,108
Less amount representing interest	0	(2,007)	(18,063)	(5,707)	(6,389)	(8,065)
Present value of future minimum note payments	<u>\$ 15,483</u>	<u>\$ 46,972</u>	<u>\$109,540</u>	<u>\$ 43,823</u>	<u>\$ 63,378</u>	<u>\$ 61,043</u>



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

Manchester Local School District
Summit County
6075 Manchester Road
Akron, Ohio 44319

To the Board of Education:

We have audited the financial statements of Manchester Local School District, Summit County, Ohio, (the District) as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 14, 2002 in which we noted the District reports on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-10977-001 through 2002-10977-004.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 14, 2002.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 14, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

November 14, 2002

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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NONCOMPLIANCE

Finding Number	2002-10977-001
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Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented provided that such amendment or supplement complies with all provisions of law governing the tax authority in making the original appropriation. This section mandates that the Board of Education may not delegate its authority to establish appropriations. The appropriation process is a function of the taxing authority that must be performed by those specific individuals elected to fulfill that responsibility. Other officials of the District may be given the authority to allocate or reallocate resources within a legally adopted appropriation, but only below the legal level of control set by the Board of Education. During the July 17, 2002 and July 16, 2001 Board of Education meetings, the Treasurer was authorized by the Board of Education to balance all funds and accounts as needed to complete the fiscal year. The specific modifications made by the Treasurer were not approved by the Board until after the respective year-ends. Accordingly these appropriation modifications have not been included in the accompanying financial statements. Also **Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

As a result, various object level expenditures plus outstanding encumbrances exceeded appropriations within the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
2002			
General Fund	\$9,930,599	\$10,292,665	(\$362,066)
Special Revenue - Extracurricular			
Activities Fund	100,150	152,119	(51,969)
Debt Service - Bond Retirement	193,755	510,101	(316,346)
Capital Projects - Permanent			
Improvement Fund	101,832	134,844	(33,012)
Internal Service Fund - Self			
Insurance Fund	975,000	1,069,534	(94,534)

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
2001			
General Fund	\$9,967,624	\$10,405,167	(\$437,543)
Special Revenue - Emergency			
Levy Fund	290,927	301,634	(10,707)
Special Revenue - Extracurricular			
Activities Fund	85,607	169,422	(83,815)
Debt Service - Bond Retirement	183,384	660,319	(476,935)

In addition, during 2001, for 3% of the individual expenditure transactions tested the expenditures exceeded the appropriations at the fund level of control.

**NONCOMPLIANCE
 (Continued)**

The legislative body of a local government may not delegate its authority to approve appropriation modifications or transfers of funds. The modification of appropriations and the transfer process is a function of the legislative authority that must be performed by those specific individuals selected to fulfill that responsibility.

Finally, the Treasurer should frequently compare actual expenditures plus encumbrances to appropriations at the legal level of control to help avoid potential overspending.

Finding Number	2002-10977-002
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Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.

For fiscal year 2002 and 2001, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual financial reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District should ensure preparation of its financial statements in accordance with generally accepted accounting principles.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

Finding Number	2002-10977-003
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Ohio Rev. Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

Throughout the fiscal years 2002 and 2001, certain funds incurred negative fund balances as follows:

Fund Type/Fund	Approximate Amounts or Range of Negative Fund Balance
Special Revenue Funds:	
Teacher Development	(\$1,500 to \$2,600)
Title VI-B	(\$600 to \$6,000)
Title VI	(\$700 to \$3,700)
Debt Service Fund:	
Bond Retirement	(\$24,800 to \$490,000)

2001

Special Revenue Funds:	
Emergency Levy	(\$27,600 to \$16,600)
Ohio Reads	(\$3,900)
Title VI-B	(\$2,800)
Title I	(\$600 to \$20,900)

**NONCOMPLIANCE
(Continued)**

The above negative fund balances were eliminated by the end of fiscal years 2002 and 2001. The Treasurer should monitor receipts and disbursements on a regular basis to help ensure a sufficient fund balance exists before authorizing the expenditure of funds.

Finding Number	2002-10977-004
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Ohio Rev. Code Section 133.301 provides additional borrowing authority for boards of education. This section allows a board of education to issue notes prior to June 30 of one fiscal year to be repaid after July 1 of the next fiscal year. In addition, this section provides that the maximum amount permitted to be borrowed across the fiscal year-end without an exception granted by the state superintendent is 50% of the amount of personal property tax receipts estimated to be received during the *calendar* year minus the amount of first half collections of those taxes.

To qualify for this type of borrowing, a board of education must:

- include a spending reserve balance in its budget
- adopt a resolution requesting certification by the state superintendent of an amount which the board may borrow
- deliver that resolution to the state superintendent by January 1
- receive certification

Upon receipt of that certification, a board of education may borrow, prior to July 1, an amount up to the amount certified and issue notes in anticipation of the second half calendar year collections of personal property taxes. These notes must mature prior to December 31, and the taxes they anticipate are considered to be appropriated for their payment at maturity.

During fiscal year 2002, the District issued six different anticipation notes in denominations of \$15,483 (maturity 1/28/03), \$46,972 (maturity 1/28/04), \$61,043 (maturity 1/28/04), \$63,378 (maturity 1/28/06), \$43,823 (maturity 1/28/07), \$109,540 (maturity 1/28/08). Each one of the note agreements violated the maturity guidelines of this section, while one did not mature until fiscal year 2007. In addition, the total amount borrowed of \$336,202 exceeded the 50% threshold of \$253,742 by nearly \$83,000.

The District should, in the future, consider consulting with their Bond Council when entering into debt agreements. This will help to ensure applicable sections of the Ohio Revised Codes are followed.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2000 AND 1999**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2000-10977-001	Negative Fund Balances.	No	Not corrected. See Finding Number 2002-10977-003.
2000-10977-002	Expenditures Exceeding Appropriations.	No	Not corrected. See Finding Number 2002-10977-001.
2000-10977-003	Delegating Authority of Final Appropriations.	No	Not corrected. See Finding Number 2002-10977-001.
2000-10977-004	The District did not file its report on a GAAP basis	No	Not corrected. See Finding Number 2002-10977-002.



STATE OF OHIO
OFFICE OF THE AUDITOR

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MANCHESTER LOCAL SCHOOL DISTRICT

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**