



**Auditor of State
Betty Montgomery**

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Lake Local School District
Wood County
28025 Main Street, P.O. Box 151
Millbury, Ohio 43447-0151

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 Lake Local School District, Wood County, (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Lake Local School District, Wood County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and changed the capital asset threshold amount.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The federal awards expenditure 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 also not a required part of the basic financial statements. We subjected the federal awards expenditure 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

April 21, 2004

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The discussion and analysis of Lake Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2003 are as follows:

- Net assets of governmental activities increased by \$143,000, which represents a three percent (3%) increase from fiscal year 2002.
- The School District refinanced the High School bond issue by issuing \$1,635,000 in new bonds at a lower interest rate. This will result in a total savings of \$111,600.
- A replacement of a 6.5 mill operating levy, which had failed in November, 2002, was approved in May 2003. This levy provides an additional \$277,000 per year.
- The School District made payments of \$10,062,314 on new construction and renovations for the Middle School, High School, Lake Elementary, Walbridge Elementary, and athletic facilities.
- Decline in interest rates from STAR Ohio, 1.90 percent at June 30, 2002 compared to 1.13 percent at June 30, 2003, resulted in lower income from interest earned for the School District.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Lake Local School District's financial position.

The statement of net assets and the statement of activities provide information about the activities of the School District as a whole, presenting both an aggregate and a longer-term view of the School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short term and what remains for future spending. Fund financial statements report the School District's most significant funds

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

individually and the School District's non-major funds in a single column. The School District's major funds are the General Fund, the Bond Retirement Debt Service Fund, and the Building Capital Projects Fund.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year.

Over time, these increases and/or decreases are an indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the School District's property tax base and the condition of the School District's capital assets. These factors must be considered when assessing the overall health of the School District.

In the statement of net assets and the statement of activities, the School District has the following activity:

Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, non-instructional services, and extracurricular activities expenditures. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. The School District's major governmental funds are the General Fund, the Bond Retirement

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Debt Service Fund, and the Building Capital Projects Fund. While the School District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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.

Table 1 provides a summary of the School District's net assets for fiscal year 2003.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

TABLE 1
Net Assets (In Thousands)

	Governmental Activities
Assets	
Current and Other Assets	\$ 13,424
Capital Assets, Net	17,767
<i>Total Assets</i>	31,191
Liabilities	
Current and Other Liabilities	8,042
Long-Term Liabilities	17,611
<i>Total Liabilities</i>	25,653
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,295
Restricted	4,020
Unrestricted	223
<i>Total Net Assets</i>	\$ 5,538

Net capital assets increased with the completion of new construction and renovations for the Middle School, High School, Lake Elementary, Walbridge Elementary and the athletic facilities.

Table 2 reflects the changes in new assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

TABLE 2
Change in Net Assets (In Thousands)

	Government al Activities 2003
Revenues	
Program Revenues	
Charges for services	\$ 973
Operating grants and contributions	652
Capital grants and contributions	57
<i>Total Program Revenues</i>	1,682
General Revenues	
Property taxes	7,022
Payment in lieu of taxes	52
Grants and entitlements not restricted to specific programs	5,063
Interest	589
Miscellaneous	5
<i>Total General Revenues</i>	12,731
<i>Total Revenues</i>	14,413
Expenses	
Instruction	7,170
Support Services:	
Pupils	705
Instructional staff	487
Board of Education	74
Administration	602
Fiscal	315
Operation and maintenance of plant	1,239
Pupil transportation	814
Central	288
Non-Instructional Services	140
Extracurricular Activities	764
Interest and Fiscal Charges	929
Food Service	508
<i>Total Expenses</i>	14,035
<i>Increase in Net Assets</i>	378
<i>Net Assets - 07/01/02</i>	5,160
<i>Net Assets - 06/30/03</i>	\$ 5,538

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Governmental Activities

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3, for governmental activities, indicates the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2002 have not been made since they are not available.

TABLE 3
Governmental Activities (In Thousands)

	2003	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,170	\$ 6,552
Support Services:		
Pupils and instructional staff	1,192	1,079
Board of Education, Administration Fiscal and	991	969
Operation and maintenance of plant	1,239	1,217
Pupil transportation	814	781
Central	288	275
Non-Instructional Services	140	21
Food Service Operations	508	73
Extracurricular Activities	764	457
Interest and Fiscal Charges	929	929
<i>Total Expenses</i>	<u>\$ 14,035</u>	<u>\$ 12,353</u>

The School District is dependent upon tax revenues for governmental activities. Over 91 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88 percent. The community, as a whole, is the primary support for Lake Local School District students.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$16,415,309 and expenditures and other financing uses of \$26,733,361. This negative change in fund balance

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

of \$8,318,052 for the fiscal year reflects the payments of over \$10 million for construction and renovation cost of school buildings.

BUDGETARY HIGHLIGHTS

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of July. The School District's most significant budgeted fund is the General Fund. During the course of fiscal year 2003, the School District amended its General Fund budget as needed.

For the General Fund, final budgeted revenues did not change significantly from the School District's original estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The primary increase in capital assets for governmental activities is the result of construction and renovations for the Middle School, High School, Lake Elementary, Walbridge Elementary, and the athletic facilities. The following table shows fiscal 2003 balances compared to 2002 (restated):

TABLE 4
Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$ 909,400	\$ 909,400
Land improvements	1,413,548	1,066,864
Building and building improvements	6,296,243	2,012,300
Furniture, fixtures, and equipment	523,381	157,261
Vehicles	506,761	474,339
Library and textbooks	-	31,485
Construction in progress	8,044,558	2,817,098
<i>Total</i>	<u>\$17,693,891</u>	<u>\$ 7,468,747</u>

Note 9 provides additional details regarding capital assets.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Debt

The School District has two school improvement bonds and an energy conservation note that will be fully paid in 2010, 2026, and 2006.

In addition to the debt noted above, the School District's long term debt also includes compensated absences. Note 16 provides additional details regarding debt. The following table summarizes the bonds and notes outstanding.

TABLE 5
Outstanding Debt, at Year End

	Governmental Activities	
	2003	2002
General Obligation Bonds	\$ 14,309,995	\$ 16,474,995
Refunding Bonds	1,635,000	-
Unamortized Premium	168,942	-
Energy Conservation Note HB 264	220,626	287,670
<i>Total</i>	<u>\$ 16,334,563</u>	<u>\$ 16,762,665</u>

CURRENT ISSUES

Overall, the Lake Local School District has been financially strong. However, future finances are not without challenges as the community changes and State funding is revised. Some of those challenges are in the future of State funding for schools in light of the eleven year old DeRolph court case and the long-term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the School District's finances for all those interested in the School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Nancy Heckman, Treasurer, Lake Local School District, 28025 Main Street, Millbury, Ohio 43447.

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**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 4,899,950
Investments	796,016
Inventory Held for Resale	8,861
Accrued Interest Receivable	17,251
Accounts Receivable	36,843
Intergovernmental Receivable	24,526
Prepaid Items	36,584
Taxes Receivable	7,604,447
Noncurrent Assets:	
Unamortized Bond Issuance Cost	72,707
Non-Depreciable Capital Assets	8,953,958
Depreciable Capital Assets, net	<u>8,739,933</u>
<i>Total Assets</i>	<u><u>\$ 31,191,076</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 133,431
Contracts Payable	264,069
Accrued Wages and Benefits	808,293
Intergovernmental Payable	303,567
Accrued Interest Payable	65,665
Deferred Revenue	6,466,489
Long-Term Liabilities:	
Due within one year	877,216
Due in more than one year	<u>16,734,085</u>
<i>Total Liabilities</i>	<u>25,652,815</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,294,733
Restricted for Debt Service	728,678
Restricted for Capital Outlay	3,078,909
Restricted for Other Purposes	82,265
Restricted for Set Asides	130,278
Unrestricted	<u>223,398</u>
<i>Total Net Assets</i>	<u><u>\$ 5,538,261</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 5,693,302	\$ 361,124	\$ 114,425	\$ 25,275	\$ 5,192,478
Special	1,272,547	-	99,448	-	1,173,099
Vocational	200,717	-	16,964	-	183,753
Adult/Continuing	155	-	-	-	155
Other	2,957	-	-	-	2,957
Support Services:					
Pupils	704,747	6,000	68,114	-	630,633
Instructional Staff	486,482	-	38,048	-	448,434
Board of Education	74,329	-	-	-	74,329
Administration	602,047	-	16,006	-	586,041
Fiscal	315,423	-	7,161	-	308,262
Operation and Maintenance of Plant	1,239,285	-	21,840	-	1,217,445
Pupil Transportation	813,633	-	764	31,876	780,993
Central	287,504	-	12,996	-	274,508
Operation of Non-Instructional Services	139,763	-	118,719	-	21,044
Operation of Non-Instructional Services:					
Food Service Operations	508,289	298,394	137,125	-	72,770
Extracurricular Activities	764,405	307,413	-	-	456,992
Interest and Fiscal Charges	928,993	-	-	-	928,993
<i>Total Governmental Activities</i>	<u>\$14,034,578</u>	<u>\$ 972,931</u>	<u>\$ 651,610</u>	<u>\$ 57,151</u>	<u>12,352,886</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					5,411,099
Capital Outlay					271,561
Debt Service					1,338,949
Grants and Entitlements not Restricted to Specific Programs					5,062,844
Gifts and Donations					3,173
Investment Earnings					589,045
Payments in Lieu of Taxes					51,600
Miscellaneous					2,246
<i>Total General Revenues and Transfers</i>					<u>12,730,517</u>
Change in Net Assets					377,631
<i>Net Assets Beginning of Year</i>					<u>5,160,630</u>
<i>Net Assets End of Year</i>					<u>\$ 5,538,261</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003**

	General Fund	Bond Retirement Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 648,065	\$ 529,074	\$ 2,995,434	\$ 597,099	\$ 4,769,672
Investments	796,016	-	-	-	796,016
Inventory Held for Resale	-	-	-	8,861	8,861
Accrued Interest Receivable	17,251	-	-	-	17,251
Accounts Receivable	34,994	-	-	1,849	36,843
Interfund Receivable	50,000	-	-	-	50,000
Intergovernmental Receivable	-	-	-	24,526	24,526
Prepaid Items	34,287	-	2,297	-	36,584
Taxes Receivable	5,953,497	1,361,154	-	289,796	7,604,447
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	130,278	-	-	-	130,278
<i>Total Assets</i>	<u>7,664,388</u>	<u>1,890,228</u>	<u>2,997,731</u>	<u>922,131</u>	<u>13,474,478</u>
Liabilities					
Current Liabilities:					
Accounts Payable	49,796	-	57,349	26,286	133,431
Contracts Payable	-	-	246,589	17,480	264,069
Accrued Wages and Benefits	761,850	-	-	46,443	808,293
Interfund Payable	-	-	-	50,000	50,000
Intergovernmental Payable	188,099	-	-	5,843	193,942
Deferred Revenue	5,527,996	1,241,018	-	264,139	7,033,153
<i>Total Liabilities</i>	<u>6,527,741</u>	<u>1,241,018</u>	<u>303,938</u>	<u>410,191</u>	<u>8,482,888</u>
Fund Balances					
Reserved:					
Reserved for Budget Stabilization	54,153	-	-	-	54,153
Reserved for Encumbrances	178,379	-	1,731,834	91,970	2,002,183
Reserved for Inventory	-	-	-	8,861	8,861
Reserved for Prepaid Items	34,287	-	2,297	-	36,584
Reserved for Property Taxes	425,501	120,136	-	25,657	571,294
Reserved for Textbooks and Instructional Materials	76,125	-	-	-	76,125
Unreserved, Undesignated, Reported in:					
General Fund	368,202	-	-	-	368,202
Special Revenue Funds	-	-	-	108,163	108,163
Debt Service Funds	-	529,074	-	-	529,074
Capital Projects Funds	-	-	959,662	277,289	1,236,951
<i>Total Fund Balances</i>	<u>1,136,647</u>	<u>649,210</u>	<u>2,693,793</u>	<u>511,940</u>	<u>4,991,590</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 7,664,388</u>	<u>\$ 1,890,228</u>	<u>\$ 2,997,731</u>	<u>\$ 922,131</u>	<u>\$ 13,474,478</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003**

Total Governmental Fund Balances	\$ 4,991,590
<i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds:	17,693,891
Other long-term assets are not available to pay for current period expenditures and, therefore, deferred in the funds:	566,664
Unamortized issuance costs are reported as deferred charges on the Statement of Net Assets but as an expenditure on the fund financial statements which do not provide current financial resources and, therefore, are not reported in the funds:	72,707
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore not reported in the funds:	(109,625)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	<u>(17,676,966)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 5,538,261</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	General Fund	Bond Retirement Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Local Taxes	\$ 5,342,100	\$ 1,330,515	\$ -	\$ 269,168	\$ 6,941,783
Intergovernmental	4,938,148	136,260	-	696,013	5,770,421
Interest	86,273	-	498,986	3,786	589,045
Tuition and Fees	203,571	-	-	47,174	250,745
Rent	4,200	-	-	-	4,200
Extracurricular Activities	20,732	-	-	351,964	372,696
Gifts and Donations	232	-	-	29,794	30,026
Customer Sales and Services	5,872	-	-	312,565	318,437
Miscellaneous	648	-	-	1,598	2,246
<i>Total Revenues</i>	<u>10,601,776</u>	<u>1,466,775</u>	<u>498,986</u>	<u>1,712,062</u>	<u>14,279,599</u>
Expenditures					
Current:					
Instruction:					
Regular	5,023,914	-	46,939	375,518	5,446,371
Special	1,118,118	-	-	143,513	1,261,631
Vocational	202,772	-	-	-	202,772
Adult/Continuing	155	-	-	-	155
Other	2,957	-	-	-	2,957
Support Services:					
Pupils	613,529	-	-	77,601	691,130
Instructional Staff	423,707	-	-	40,133	463,840
Board of Education	72,516	1,530	-	516	74,562
Administration	593,730	-	-	18,658	612,388
Fiscal	280,427	14,498	1,412	10,496	306,833
Operation and Maintenance of Plant	1,097,803	-	102	400,905	1,498,810
Pupil Transportation	826,249	-	-	775	827,024
Central	254,777	-	-	21,026	275,803
Operation of Non-Instructional Services	-	-	-	126,809	126,809
Operation of Non-Instructional Services:					
Food Service Operations	-	-	-	497,116	497,116
Extracurricular Activities	398,594	-	-	299,137	697,731
Capital Outlay:					
Building Acquisition and Construction Services	-	-	10,300,367	-	10,300,367

(Continued)

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(Continued)**

	General Fund	Bond Retirement Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Debt Service:					
Principal	-	597,043	-	-	597,043
Interest		767,093			767,093
Issuance Costs	-	74,480	-	-	74,480
<i>Total Expenditures</i>	<u>10,909,248</u>	<u>1,454,644</u>	<u>10,348,820</u>	<u>2,012,203</u>	<u>24,724,915</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(307,472)</u>	<u>12,131</u>	<u>(9,849,834)</u>	<u>(300,141)</u>	<u>(10,445,316)</u>
Other Financing Sources and (Uses)					
Transfers In	217,794	-	-	57,070	274,864
Refunding Bonds Issued	-	1,635,000	-	-	1,635,000
Payment to Refunded Bond Escrow Agent	-	(1,733,582)	-	-	(1,733,582)
Premium on Debt Issuance	-	173,062	-	-	173,062
Other Financing Sources	-	-	-	52,784	52,784
Transfers Out	(274,864)	-	-	-	(274,864)
<i>Total Other Financing Sources and Uses</i>	<u>(57,070)</u>	<u>74,480</u>	<u>-</u>	<u>109,854</u>	<u>127,264</u>
<i>Net Change in Fund Balances</i>	<u>(364,542)</u>	<u>86,611</u>	<u>(9,849,834)</u>	<u>(190,287)</u>	<u>(10,318,052)</u>
<i>Fund Balance at Beginning of Year</i>	<u>1,501,189</u>	<u>562,599</u>	<u>12,543,627</u>	<u>702,227</u>	<u>15,309,642</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,136,647</u>	<u>\$ 649,210</u>	<u>\$ 2,693,793</u>	<u>\$ 511,940</u>	<u>\$ 4,991,590</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ (10,318,052)

*Amounts reported for governmental activities in the
statement of activities are different because of the following:*

Governmental funds report capital outlays as expenditures. However, on 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 capital outlays exceeded depreciation in the current year:	10,225,146
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	79,826
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:	2,254,846
Debt proceeds, discounts, and premiums are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of net assets:	(1,808,062)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums and discounts are reported on the statement of activities:	(61,545)
Issuance costs are reported as an expenditure when paid in the governmental funds, but are deferred and amortized on the statement of activities:	72,707
Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:	<u>(67,235)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ 377,631</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property and Other Local Taxes	\$ 5,414,927	\$ 5,363,327	\$ 5,363,650	\$ 323
Intergovernmental	5,220,456	5,243,456	4,938,148	(305,308)
Interest	180,000	100,000	76,453	(23,547)
Tuition and Fees	207,000	187,000	170,508	(16,492)
Rent	4,000	4,000	3,800	(200)
Extracurricular Activities	21,500	23,000	20,732	(2,268)
Gifts and Donations	-	-	232	232
Customer Sales and Services	8,538	8,538	5,872	(2,666)
Miscellaneous	1,700	1,700	808	(892)
<i>Total Revenues</i>	<u>11,058,121</u>	<u>10,931,021</u>	<u>10,580,203</u>	<u>(350,818)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,174,037	5,151,664	5,033,203	118,461
Special	1,392,673	1,402,873	1,227,987	174,886
Vocational	202,838	217,838	206,819	11,019
Other	3,000	3,000	2,957	43
Support Services:				
Pupils	621,695	610,995	598,594	12,401
Instructional Staff	495,069	498,369	482,091	16,278
Board of Education	82,709	97,409	73,384	24,025
Administration	913,721	896,395	848,833	47,562
Fiscal	329,567	318,567	313,213	5,354
Operation and Maintenance of Plant	1,218,452	1,320,652	1,238,412	82,240
Pupil Transportation	1,066,470	922,470	878,144	44,326
Central	286,774	289,774	271,713	18,061
Extracurricular Activities	416,436	423,436	399,866	23,570
<i>Total Expenditures</i>	<u>12,203,441</u>	<u>12,153,442</u>	<u>11,575,216</u>	<u>578,226</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,145,320)</u>	<u>(1,222,421)</u>	<u>(995,013)</u>	<u>227,408</u>
Other Financing Sources and Uses				
Transfers In	-	-	217,794	217,794
Refund of Prior Year Expenditures	35,000	95,000	106,187	11,187
Transfers Out	(60,000)	(60,000)	(274,864)	(214,864)
Advances Out	-	(50,000)	(50,000)	-
<i>Total Other Financing Sources and Uses</i>	<u>(25,000)</u>	<u>(15,000)</u>	<u>(883)</u>	<u>14,117</u>
<i>Net Change in Fund Balance</i>	<u>(1,170,320)</u>	<u>(1,237,421)</u>	<u>(995,896)</u>	<u>241,525</u>
<i>Fund Balance at Beginning of Year</i>	2,008,748	2,008,748	2,008,748	-
Prior Year Encumbrances Appropriated	350,138	350,138	350,138	-
<i>Fund Balance at End of Year</i>	<u>\$ 1,188,566</u>	<u>\$ 1,121,465</u>	<u>\$ 1,362,990</u>	<u>\$ 241,525</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Net Assets
Fiduciary Funds
June 30, 2003**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 707,765	\$ 20,391
Accounts Receivable	322	-
	<u>708,087</u>	<u>20,391</u>
<i>Total Assets</i>		
Liabilities		
Current Liabilities:		
Accounts Payable	-	19
Due to Students	-	20,372
	<u>-</u>	<u>20,391</u>
<i>Total Liabilities</i>		
Net Assets		
Held in Trust for Scholarships	708,087	-
	<u>708,087</u>	<u>-</u>
<i>Total Net Assets</i>	<u>\$ 708,087</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$ 14,938
Interest	<u>9,581</u>
<i>Total Additions</i>	24,519
Deductions	
Payments in Accordance with Trust Agreements	<u>5,059</u>
<i>Total Deductions</i>	<u>5,059</u>
<i>Change in Net Assets</i>	19,460
<i>Net Assets Beginning of Year</i>	<u>688,627</u>
<i>Net Assets End of Year</i>	<u><u>\$ 708,087</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Lake Local School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The District is located in a rural community in Northwest Ohio. The School District is the 303rd largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 63 non-certificated employees, 99 certificated full-time teaching personnel who provide services to 1,849 students and other community members.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District is associated with four organizations as follows: Northwest Ohio Computer Association, Northern Buckeye Education Council, and Penta County Vocational School, which are defined as jointly governed organizations; and the Ohio Association of School Business Officials Group Rating Program, which is an insurance purchasing pool. These organizations are presented in Notes 18 and 19 to the basic financial statements.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake Local School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the School District 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 School District had three 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Debt Service Fund - This fund is used to account for property tax revenues and transfers from the General Fund to pay the principal and related interest on the School District's school improvement bonds and energy conservation note.

Building Capital Projects Fund - This fund is used to account for the debt proceeds and interest for construction of new school buildings.

The other governmental funds of the School District account for grants and other resources and capital projects of the School District whose use are restricted to a particular purpose.

FIDUCIARY FUND TYPES

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; the fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, payment in lieu of taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 School District must provide local resources to be used to the specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, and student fees.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are 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 are reported as deferred revenue.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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, is measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amount on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during fiscal year 2003.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. There was no appropriation amendments made during the fiscal year.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

F. Estimates

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

G. Cash and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". During fiscal year 2003, investments were limited to certificates of deposit, STAR Ohio, and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

Following Ohio statutes, 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 2003 amounted to \$86,273, which includes \$38,057 assigned from other funds.

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

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

H. Inventory

Inventory is presented at the lower of cost or market. Cost is determined on a first-in, first-out basis and is expensed when used on the government-wide financial statements, or recorded as an expenditure/expense when used on the fund financial statements. Inventory is accounted for using the purchase method.

On the fund financial statements, reported 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 donated and purchased foods in the governmental funds.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Restricted Funds

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

Restricted assets in the general fund represent cash set aside to establish a budget stabilization and textbook and instructional material reserves. These reserves are required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. The total restricted cash as of June 30, 2003 was \$130,278.

K. Capital Assets

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

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand dollars. The School District does not have any infrastructure. Improvements are capitalized.

All capital assets, except land and construction in progress, 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	Useful Lives
Land improvements	20 years
Buildings and building improvements	20 - 50 years
Furniture, fixtures, and equipment	5 - 20 years
Vehicles	8 years
Infrastructure	50 years
Library and textbooks	6 years

L. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statements of net assets are those between governmental and business-type activities. These amounts are reflected as “Internal Balances”.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

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

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide 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, contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Notes are recognized as a liability on the fund financial statements when due.

O. Unamortized Issuance Costs/Bond Premium and Discount

On government-wide financial statements, issuance costs and bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond discounts are presented as a reduction of the face amount of bonds payable.

Bond premiums on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amounts of the bonds.

On the governmental fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the current period.

P. Interfund Transactions

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

Q. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for 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 are established for encumbrances, inventories of supplies and materials, budget stabilization, prepaid items, and textbook and instructional materials. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

S. 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 management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

for State and Local Governments: Omnibus; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting. GASB Statement No. 37 makes certain clarifications regarding escheat property and several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The School District elected to change the capital asset capitalization threshold from \$1,000 to \$2,000 in the current fiscal year. This change resulted in a restatement of capital assets for the governmental funds. See Note 9 for detail. Implementation of GASB 34 results in reporting the General Fixed Asset Account Group as Governmental Capital Assets. The restatement table below reflects the adjustment required for the change in the capital assets.

The School District has elected to include the Internal Service Fund as a General Fund, and the Enterprise Funds and Expendable Trust Fund as Special Revenue Funds. This resulted in an increase of \$9,019 in the June 30, 2002 General Fund balance and an increase of \$43,197 in the Other Governmental Fund balance as of June 30, 2002. The restatement table below reflects these beginning fund balance adjustments.

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major and nonmajor funds of the School District

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as they were previously reported. The implementation had no effect on the Bond Retirement major fund and Building major fund.

The restatement from governmental fund balance to net assets of governmental activities:

	General	Bond Retirement Fund	Building Fund	Other Governmental	Total Governmental Activities
Fund Balance June 30, 2002	\$ 1,468,963	\$ 562,599	\$ 12,543,627	\$ 684,358	\$ 15,259,547
GASB Interpretation No. 6 Adjustment:					
Compensated absences payable	32,226	-		17,869	50,095
Adjusted Fund Balance	<u>\$ 1,501,189</u>	<u>\$ 562,599</u>	<u>\$ 12,543,627</u>	<u>\$ 702,227</u>	15,309,642
GASB Statement No. 34 Adjustments:					
Property taxes receivable					486,838
Capital assets					7,468,746
Intergovernmental payable					(59,975)
Compensated absences payable					(1,194,558)
Other long-term liabilities					<u>(16,850,063)</u>
Governmental Activities Net Assets at June 30, 2002					<u>\$ 5,160,630</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 as follows:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

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- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Changes in Fund Balance	
Budget Basis	\$ (995,896)
Increase (Decrease) Due To:	
Net adjustment for revenue accruals	21,573
Net adjustment for expenditure accruals	454,589
Net adjustment for other sources/(uses)	(56,187)
Encumbrances outstanding at year end (Budget basis)	211,379
GAAP Basis	\$ (364,542)

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2003, there were several special revenue funds with deficit fund balances. The deficits in the special revenue fund resulted from the application of generally accepted accounting principles. The general fund is liable for any deficit funds and provides operating transfers when cash is required, not when accruals occur.

Fund	Fund Description	Deficit Balance
Special Revenue		
572	Title I Fund	\$ 12,703
006	Lunch Room Fund	52,637
401	Auxiliary Fund	745

B. Compliance

The Debt Service Fund had expenditures plus encumbrances in excess of appropriations for the year ended June 30, 2003.

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(Continued)**

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrance</u>	<u>Excess</u>
Debt Service Fund	<u>\$ 1,426,574</u>	<u>\$ 3,191,428</u>	<u>\$ (1,764,854)</u>

Contrary to the Ohio Revised Code, the School District had not properly certified the availability of funds prior to incurring expenditures.

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim 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 or deposit accounts including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

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(Continued)**

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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School 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 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.

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

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

Cash on Hand - At fiscal year end, the School District had \$1,875 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$4,082,226 and the bank balance was \$4,479,630. Of the bank balance, \$438,679 was covered by federal depository insurance, \$165,480 was covered by pledged collateral, and \$ 3,875,471 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments - The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 1	Carrying/ Market Value
Federal Agency Securities	\$ 796,016	\$ 796,016
Investments not subject to categorization:		
STAR Ohio		1,544,005
Total Investments		\$ 2,340,021

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**Notes to the Basic Financial Statements
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Investments are reported at fair value. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses in investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. No unrealized gain or loss has been recorded at year end.

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

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 5,628,106	\$ 796,016
Cash on Hand	(1,875)	-
Investments:		
STAR Ohio	(1,544,005)	1,544,005
GASB Statement 3	\$ 4,082,226	\$ 2,340,021

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

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**Notes to the Basic Financial Statements
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(Continued)**

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

The School District receives property taxes from Wood and Ottawa Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue.

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 163,093,370	76.36%	\$ 176,270,790	78.67%
Public Utility	18,193,100	8.52%	17,706,860	7.90%
Tangible Personal Property	32,286,832	15.12%	30,098,725	13.43%
Total Assessed Value	<u>\$ 213,573,302</u>	<u>100.00%</u>	<u>\$ 224,076,375</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 55.10		\$ 54.80	

**LAKE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, interfund, and intergovernmental grants. 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 fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Special Revenue	
Lunch Room Fund	\$ 20,439
Title II A	4,087
Total	\$ 24,526

NOTE 9 - CAPITAL ASSETS

A. The capital asset balances for the governmental activities have been restated due to changes in the District's capital asset policy (see Note 3 A for detail), fund reclassification and correction for capital assets not reported in the prior year. The change in capitalization threshold decreased the capital assets by \$1,692,690. The addition of the enterprise fund capital assets due to fund reclassification was \$121,859. The District increased capital assets by \$5,968,064 for assets not previously reported. The following table reflects the change in capital assets due to the restatements noted.

	Capital Assets
Balance at June 30, 2002	\$ 9,609,458
Restatements:	
Capitalization Threshold Change	(1,692,690)
Fund Reclassification	121,859
Correction of an Error	5,968,064
Restated Balance at June 30, 2002	\$ 14,006,691

**LAKE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	Restated Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Non-Depreciable Capital Assets:				
Land	\$ 909,400	\$ -	\$ -	\$ 909,400
Construction in Progress	2,817,098	5,916,249	688,789	8,044,558
<i>Total Non-Depreciable Capital Assets</i>	<u>3,726,498</u>	<u>5,916,249</u>	<u>688,789</u>	<u>8,953,958</u>
Depreciable Capital Assets:				
Land improvements	1,667,260	435,610	-	2,102,870
Buildings and building improvements	6,564,887	4,485,060	-	11,049,947
Furniture, fixtures, and equipment	456,856	430,651	36,980	850,527
Vehicles	1,213,370	227,626	152,241	1,288,755
Library and textbooks	377,820	-	-	377,820
<i>Total Depreciable Capital Assets</i>	<u>10,280,193</u>	<u>5,578,947</u>	<u>189,221</u>	<u>15,669,919</u>
Less Accumulated Depreciation				
Land improvements	600,396	88,926	-	689,322
Buildings and building improvements	4,552,587	201,117	-	4,753,704
Furniture, fixtures, and equipment	299,595	48,792	21,241	327,146
Vehicles	739,031	105,207	62,244	781,994
Library and textbooks	346,335	31,485	-	377,820
<i>Total Accumulated Depreciation</i>	<u>6,537,944</u>	<u>475,527</u>	<u>83,485</u>	<u>6,929,986</u>
<i>Depreciable Capital Assets, Net</i>	<u>3,742,249</u>	<u>5,103,420</u>	<u>105,736</u>	<u>8,739,933</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 7,468,747</u>	<u>\$ 11,019,669</u>	<u>\$ 794,525</u>	<u>\$ 17,693,891</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 230,066
Special	7,857
Vocational	1,162
Support Services:	
Pupils	644
Instructional staff	20,865
Administration	741
Fiscal	1,796

(Continued)

**LAKE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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Operation and maintenance of plant	15,970
Pupil transportation	99,186
Central	3,317
Non-instructional services	12,831
Extracurricular activities	81,092
Total Depreciation Expense	\$ 475,527

NOTE 10 - RISK MANAGEMENT

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 2003, the School District contracted for the following insurance coverage:

Selective Insurance Company of South Carolina:

Buildings and Contents - Replacement Cost	\$ 33,133,349
Automobile Liability	2,000,000
General School District Liability	
General aggregate	4,000,000
Each occurrence limit	2,000,000
Stop-Gap Employers Liability	
Employers liability each accident	1,000,000
Disease each employee	1,000,000
Disease each policy	1,000,000
Employee Benefits Liability	
Per occurrence limit	2,000,000
Policy aggregate	4,000,000
Public Employee Dishonesty	
Per loss	20,000
Per Occurrence Combined Single Limit	5,000,000
General Aggregate Policy Limit	5,000,000
National Union Fire Insurance Company of Pittsburgh, PA:	
School Leaders Errors and Omissions Policy	
Limit of liability	1,000,000

There have been no significant reductions in insurance coverage from fiscal year 2002 and settled claims, if any, have not exceeded coverage in any of the past three years.

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The District pays the State Worker's Compensation System, a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The District provides employee life insurance and accidental death and dismemberment insurance to its employees through Guardian Life Insurance in the following amounts, \$40,000 for certified employees and \$30,000 for its classified employees and for administrators an amount equal to their salary, which is \$100,000 for the superintendent.

The School District is a member of a cooperative group of Wood County Schools established to provide a self-insurance fund to pay medical/surgical, and prescription drug benefits of employees and their covered dependents. The medical insurance program operates under the control of a Board of Trustees representing the member school and is administered by Medical Mutual of Ohio. The plan provides a medical/surgical plan with a \$50 single and \$100 family deductible. The plan also provides prescription drug care through the major medical portion of the plan. Dental care is provided through Medical Mutual of Ohio and vision insurance through Vision Service Plan.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. 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 benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent 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 statutory maximum amount, by the SERS' Retirement Board.

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The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$120,501, \$75,806, and \$55,143, respectively; 21.34 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)227-4090.

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. If an active Plan member should die before retirement, the eligible spouse and dependents 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.

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For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$671,346, \$466,610, and \$478,615, respectively; 80.30 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$51,642 for fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3,011 billion at June 30, 2002 (the latest information available). For the fiscal year ended

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June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS has 105,300 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay has been established at \$14,500. For the School District, the amount to fund health care benefits, including surcharge, equaled \$117,342 for fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 13 - COMPENSATED ABSENCES AND JUDGMENTS

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to twenty-five days of vacation per fiscal year, depending upon length of service. Vacation days are credited to classified employees at the end of the school year and must be used within the next twelve months. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 270 days for classified, 290 days for certified, and 305 days for administrators. A percentage of unused sick time is paid at retirement at a rate of 25 percent of accumulated sick leave at the daily rate of pay being received at the time of final service. The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due during the current period. The noncurrent portion of the liability is not reported.

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(Continued)**

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment and furniture and fixtures have been capitalized in the statement of net assets in the amount of \$157,300. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Principal payments in fiscal year 2003 totaled \$22,803 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	Governmental Activities
2004	\$ 31,460
2005	31,460
2006	15,730
Total	78,650
Less: Amount Representing Interest	14,055
Present Value of Net Minimum Lease Payments	\$ 64,595

NOTE 15 - OPERATING LEASE - LESSEE DISCLOSURE

The School entered into an operating lease in fiscal year 2002 with the Northwest Ohio Computer Association (NWOCA) for a high bandwidth dedicated connection to NWOCA for a period of fifteen (15) years. The School elected a payment plan over 3 years, with the first payment of \$31,000 for fiscal year 2002 and the subsequent 2 payments of \$146,750 each for fiscal years 2003 and 2004. Lease payments totaled \$146,750 for the year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2003:

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

Fiscal Year Ending June 30,	
2004	\$146,750

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding 06/30/02	Additions	Deductions	Principal Outstanding 06/30/03	Amounts Due in One Year
General Obligation Bonds:					
Middle School Bonds					
Interest rate - various	\$ 14,659,993	\$ -	\$ 350,000	\$ 14,309,993	\$ 410,000
High School Bonds					
Interest rate - various	1,815,000	-	1,815,000	-	-
High School Bonds					
Interest rate - various	-	1,635,000	-	1,635,000	265,000
Unamortized Premium	-	173,062	4,120	168,942	-
Energy Conservation Notes HB 264:					
Interest rate 4.35 to 5.10%	287,670	-	67,044	220,626	70,094
Total Long-Term Bonds and Notes	16,762,663	1,808,062	2,236,164	16,334,561	745,094
Capital Leases	87,398	-	22,803	64,595	23,027
Compensated Absences	1,208,555	3,590	-	1,212,145	109,095
Total Long-Term Obligations	\$ 18,058,616	\$ 1,811,652	\$ 2,258,967	\$ 17,611,301	\$ 877,216

General Obligation Bonds – All general obligation bonds are supported by the full faith and credit of Lake Local School District. General obligation bonds will be paid from property taxes out of the Bond Retirement debt service fund. The School District refunded on April 1, 2003 the High School bond issue by issuing \$1,635,000 in new bonds at a lower interest rate. Below is a comparison of the High School bond issue before and after refunding.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
12/1/2003	\$ 292,425	\$ 292,425	\$ 297,188	\$ 4,763
12/1/2004	294,513	294,513	295,000	487
12/1/2005	293,013	293,013	297,188	4,175
12/1/2006	292,050	292,050	293,438	1,388
12/1/2007	290,975	290,975	294,063	3,088
12/1/2008	293,550	293,550	293,750	200
12/1/2009	200,000	200,000	297,500	97,500
	<u>\$ 1,956,526</u>	<u>\$ 1,956,526</u>	<u>\$ 2,068,127</u>	<u>\$ 111,601</u>

Compensated Absences Payable – The compensated absences liability will be paid from the General fund and the Food Service fund. Additions and deletions of compensated absences are shown net since it is impractical for the School District to determine these amounts separately.

Capital Leases Payable – Capital lease obligations will be paid from the fund that maintains custody of the related asset.

Annual Long-Term Debt Obligation Summary – The following is a summary of the School District’s future annual debt service requirements for governmental activities:

Year Ending June 30,	General Obligation Refunding Bonds		HB 264 Conservation Notes		Middle School Renovation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 289,723	\$ 37,825	\$ 70,094	\$ 9,962	\$ 410,000	\$ 680,490
2005	284,723	31,263	73,437	6,620	425,000	664,618
2006	289,723	25,031	77,095	2,961	440,000	647,530
2007	294,723	19,012	-	-	460,000	629,300
2008	299,723	12,263	-	-	480,000	609,790
2009-2013	345,327	189,275			2,366,584	3,084,709
2014-2018	-	-			2,778,409	2,645,921
2019-2023	-	-			4,050,000	1,342,357
2024-2026	-	-	-	-	2,900,000	233,544
Total	<u>\$ 1,803,942</u>	<u>\$ 314,669</u>	<u>\$ 220,626</u>	<u>\$ 19,543</u>	<u>\$ 14,309,993</u>	<u>\$ 10,538,259</u>

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

NOTE 17 - STATUTORY RESERVES

The District is required by state statute to annually set aside in the general fund an amount based on a statutory formula for the purpose of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purpose in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2003, only the unspent portion of certain workers' compensation refunds is required to be set aside at fiscal year end.

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Total
Balance at 7/1/2002	\$ 84,274	\$ 64,183	\$ 54,153	\$ 202,610
Required Set-Aside	217,794	217,794	-	435,588
Current Year Offsets	(23,311)	-	-	(23,311)
Qualifying Expenditures	(202,632)	(351,647)	-	(554,279)
Total	<u>\$ 76,125</u>	<u>\$ (69,670)</u>	<u>\$ 54,153</u>	<u>\$ 60,608</u>
Cash balance carried forward to following year 2003	<u>\$ 76,125</u>	<u>\$ -</u>	<u>\$ 54,153</u>	<u>\$ 130,278</u>

Although the School District has off-sets and qualifying disbursements during the year that reduced the set-aside requirement below zero, the amount for capital maintenance may not be used to reduce the set-aside requirements of future years.

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code § 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. S.B. 345 places special restrictions on the use of Bureau of Workers Compensation (BWC) rebate money remaining in the budget stabilization as of April 10, 2001, which is \$54,153 at June 30, 2003. The District is still required by state law to maintain the textbook and capital maintenance reserve.

Amount restricted for textbooks	\$ 76,125
Amount restricted for budget stabilization	54,153
Total restricted assets	<u>\$ 130,278</u>

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association

The School District is a participant in the Northwest Ohio Computer Association (NWOCA) which is a computer consortium. NWOCA is an association of education entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood counties in northwestern Ohio. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to Northern Buckeye Education Council during this fiscal year were \$206,675, which includes \$146,750 for an operating lease (see note 15). These payments include services for NWOCA. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

Penta Career Center

The Penta Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each city and exempted village district and seven representatives from the county boards who represent the local districts. This board possesses its own budgeting and taxing authority. To obtain financial information write to the Penta Career Center, Carrie Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

NOTE 19 - INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Group Rating Program

The School District participates in the Ohio Association of School Business Officials Group Rating Program, an insurance purchasing pool. Each year, the participating school districts pay an enrollment fee to cover the costs of administering the program.

NOTE 20 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 School District at June 30, 2003.

State School Funding Position

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

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

NOTE 21 - CONTRACTUAL COMMITMENTS

The District had the following significant contractual commitments as of June 30, 2003:

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
June 30, 2003
(Continued)**

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Payments</u>	<u>Balance</u>
New Middle School	\$ 7,220,663	\$ 6,815,367	\$ 405,296
Lake High School	2,360,376	1,840,959	519,417
Lake Elementary	998,322	903,896	94,426
Walbridge Elementary	351,551	347,551	4,000
Athletic Improvements	874,536	863,236	11,300
Construction Manager	1,466,782	1,258,628	208,154
Architect	1,049,751	1,044,643	5,108
Total	<u>\$14,321,981</u>	<u>\$13,074,280</u>	<u>\$ 1,247,701</u>

A liability of \$264,069 has been recorded on the financial statements for work performed before June 30, 2003 but not yet paid.

NOTE 22 – RELATED PARTY TRANSACTION

The School has entered into a maintenance agreement with Avaya Inc. for their phone equipment. Avaya Inc. employs one of the board members of the School's Board of Education. Bills presented for payment to the Board of Education are in two separate motions. One motion is for all bills excluding the bill for phone maintenance and the other motion is for the bill to Avaya Inc., which the board member abstains from the vote. Total payments to Avaya Inc. for the maintenance agreement were \$18,667.

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**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Federal Awards Expenditures
For the Period Ended June 30, 2003**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number
UNITED STATES DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	C1S1-2002 C1S1-2003
Total Title 1		
Eisenhower Professional Development State Grants	84.281	MSS1-2002
Innovative Education Program Strategies	84.298	C2S1-2002 C2S1-2003
Total Innovative Education Program Strategies		
Safe and Drug Free School and Communities - State Grants	84.186	DRS1-2003
Technology, Title II-D	84.318	TJS1-2003
Class Size Reduction	84.340	CR-S1-2001
School Renovation, IDEA and Technology Grant	84.352A	ATS3-2002
Improving Teacher Quality, Title II-A	84.367	TRS1-2003
Total Department of Education		
UNITED STATES DEPARTMENT OF AGRICULTURE Passed Through Ohio Department of Education		
<u>Nutrition Cluster</u>		
Food Distribution Program	10.550	-
School Breakfast Program	10.553	05PU-2003
National School Lunch Program	10.555	LL-P4-2002 LL-P4-2003
Total United States Department of Agriculture - Nutrition Cluster		
TOTAL FEDERAL FINANCIAL ASSISTANCE		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

<u>Receipts</u>	<u>Non-cash Receipts</u>	<u>Disbursements</u>	<u>Non-cash Disbursements</u>
		\$ 2,335	
\$ 99,448		99,448	
<u>99,448</u>		<u>101,783</u>	
945		2,255	
		5,903	
10,930		10,930	
<u>10,930</u>		<u>16,833</u>	
7,165		7,165	
2,091		1,171	
		795	
17,266		17,266	
46,231		45,050	
<u>184,076</u>		<u>192,318</u>	
	\$ 50,392		\$ 50,392
17,507		17,507	
27,876		27,876	
<u>83,097</u>		<u>83,097</u>	
<u>128,480</u>	<u>50,392</u>	<u>128,480</u>	<u>50,392</u>
<u>\$ 312,556</u>	<u>\$ 50,392</u>	<u>\$ 320,798</u>	<u>\$ 50,392</u>

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School 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 School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary 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 – DISTRICT SUPPORT

The School District provides supplemental support to the Title I program (CFDA # 84.010), Drug Free School program (CFDA # 84.186), and Class Size Reduction program (CFDA # 84.340). The total supplemental support amounted to \$48,571, \$19, and \$365, respectively. The supplemental support is used to cover excess expenditures from these federal grant funds not covered by the original awards.



**Auditor of State
Betty Montgomery**

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

Lake Local School District
Wood County
28025 Main Street, P.O. Box 151
Millbury, Ohio 43447-0151

To the Board of Education:

We have audited the financial statements of Lake Local School District (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 21, 2004 in which we noted the District implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and changed the capital asset threshold amount. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also 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 School District is a separate letter dated April 21, 2004.

This report is intended for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 21, 2004



**Auditor of State
Betty Montgomery**

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

Lake Local School District
Wood County
28025 Main Street, P.O. Box 151
Millbury, Ohio 43447-0151

To the Board of Education:

Compliance

We have audited the compliance of Lake Local School District (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 21, 2004

**LAKE LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Findings
OMB Circular A -133 §.505
Fiscal Year End June 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	<u><i>Title I</i></u> <ul style="list-style-type: none"> • CFDA # 84.010 <u><i>Child Nutrition Cluster</i></u> <ul style="list-style-type: none"> • CFDA # 10.550 (Food Distribution) • CFDA # 10.553 (School Breakfast Program) • CFDA # 10.555 (National School Lunch)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. The School District had the following instance in which expenditures exceeded appropriations in the following funds at the legal level of control:

Fund	Appropriations	Expenditures	Excess
Debt Service	\$ 1,426,574	\$ 3,191,428	\$ (1,764,854)

The failure to have adequate appropriations in place at the time of the expenditure are made could result in expenditures available resources, resulting in deficit spending practices.

We recommend the District limit expenditures to the Board approved appropriations. We also recommend the District record all transactions relating to the debt refunding issuance when incurred by the District to accurately reflect the financial activity of the Board approved process.

FINDING NUMBER 2003-002

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

“Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

FINDING NUMBER 2003-002
(Continued)

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. The does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

1. Blanket Certificate – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

2. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 30% of expenditures tested and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

FINDING NUMBER 2003-003

Capital Assets

The following conditions over capital asset controls and procedures exist:

- The District had not developed a capital asset accounting system which maintains capital asset listings with tag identification numbers for all capital assets.

**FINDING NUMBER 2003-003
(Continued)**

- The School District has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed until the current fiscal year.
- The School District has not developed and implemented procedures to perform periodic physical inventory of assets.
- The School District has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the School District.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of capital assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over capital assets, and to reduce the risk that the School District's assets will be misstated, we recommend:

- The School District develops and implements procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the School District's capitalization criteria. Further, addition and disposal forms should be completed by the School District and approved by management when assets are acquired or disposed of. This information should then be entered on a capital asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location, depreciable life, function assigned to and any other supporting documentation. A copy of the invoice for the capital asset should be maintained in a capital asset additions file.
- The School District develops and implements procedures for performing periodic (annual) physical inventory. The physical inventory can be performed by submitting a list of all capital assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location, and independently verified by a member of management. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.

The School District did purchase a capital asset recording system after having the School District's capital assets inventoried by an outside appraisal company, as a result of the new construction and renovation of several buildings.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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**Auditor of State
Betty Montgomery**

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LAKE LOCAL SCHOOL DISTRICT

WOOD 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
JUNE 1, 2004**