



**Auditor of State
Betty Montgomery**

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Lordstown Local School District
Trumbull County
1824 Salt Springs Road
Warren, Ohio 44481

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 the Lordstown Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 the Lordstown Local School District, Trumbull County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund, thereof for the year 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, 2004, the 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 Discussions and Analysis – for State and Local Governments and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15 , 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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.

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

Betty Montgomery
Auditor of State

April 15, 2005

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management's discussion and analysis of the Lordstown Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$141,910 which represents a 5.88% decrease from 2003.
- General revenues accounted for \$5,663,008 in revenue or 88.44% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$740,319 or 11.56% of total revenues of \$6,403,327.
- The District had \$6,545,237 in expenses related to governmental activities; \$740,319 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,663,008 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$5,628,490 in revenues and other financing sources and \$5,559,904 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund deficit decreased \$68,586 from \$689,211 to \$620,625.
- The District's bond retirement fund had \$689,840 in revenues and \$695,075 in expenditures and other financing uses. During fiscal year 2004, the bond retirement fund's fund balance decreased \$5,235 from \$147,698 to \$142,463.

Using these Basic Financial Statements

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

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-49 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 5,911,754
Capital assets, net	<u>4,383,725</u>
Total assets	<u>10,295,479</u>
<u>Liabilities</u>	
Current liabilities	6,104,930
Long-term liabilities	<u>1,920,083</u>
Total liabilities	<u>8,025,013</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	2,908,644
Restricted	225,035
Unrestricted (deficit)	<u>(863,213)</u>
Total net assets	<u>\$ 2,270,466</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$2,270,466. Of this total, \$225,035 is restricted in use.

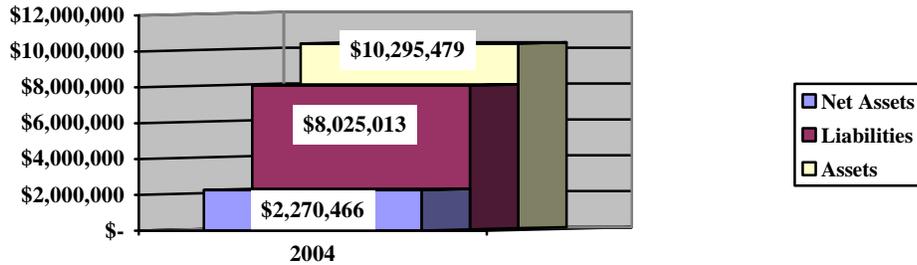
At year-end, capital assets represented 42.58% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,908,644. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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A portion of the District's net assets, \$225,035, represents resources that are subject to external restriction on how they may be used. The remaining deficit balance of unrestricted net assets of \$863,213 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 533,364
Operating grants and contributions	206,955
General revenues:	
Property taxes	4,789,996
Grants and entitlements	721,953
Investment earnings	6,963
Other	144,096
Total revenues	6,403,327

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 2,865,314
Special	605,539
Vocational	180,580
Other	37,432
Support services:	
Pupil	175,786
Instructional staff	94,348
Board of education	108,360
Administration	382,368
Fiscal	250,205
Business	6,962
Operations and maintenance	858,624
Pupil transportation	302,899
Food service operations	205,789
Compact operations	191,186
Operations of non-instructional services	3,582
Extracurricular activities	200,853
Interest and fiscal charges	<u>75,410</u>
Total expenses	<u>6,545,237</u>
Change in net assets	(141,910)
Net assets at beginning of year	<u>2,412,376</u>
Net assets at end of year	<u><u>\$ 2,270,466</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$141,910. Total governmental expenses of \$6,545,237 were offset by program revenues of \$740,319 and general revenues of \$5,663,008. Program revenues supported 11.31% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.08% of total governmental revenue.

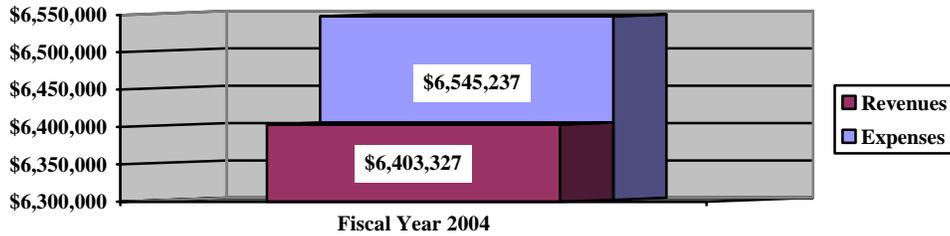
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,688,865 or 56.36% of total governmental expenses for fiscal 2004.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

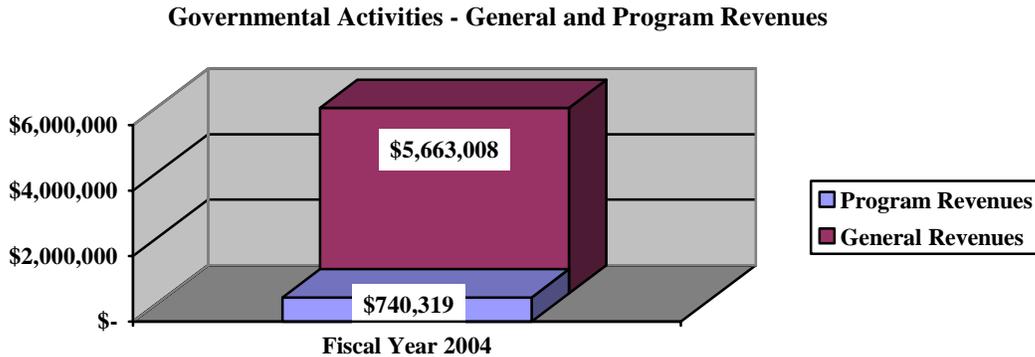
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 2,865,314	\$ 2,717,768
Special	605,539	490,572
Vocational	180,580	180,580
Other	37,432	37,432
Support services:		
Pupil	175,786	174,511
Instructional staff	94,348	94,348
Board of education	108,360	108,360
Administration	382,368	377,662
Fiscal	250,205	249,911
Business	6,962	6,962
Operations and maintenance	858,624	857,679
Pupil transportation	302,899	302,779
Food service operations	205,789	(2,290)
Compact operations	191,186	(50,214)
Operations of non-instructional services	3,582	35
Extracurricular activities	200,853	183,413
Interest and fiscal charges	75,410	75,410
Total expenses	<u>\$ 6,545,237</u>	<u>\$ 5,804,918</u>

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 92.88% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.69%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund deficit of \$333,894, which is lower than last year's total of \$467,980. The June 30, 2003 fund balances (deficit) have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance (deficit) and the total change in fund balance (deficit) as of June 30, 2004 and 2003.

	Fund Balance (deficit) <u>June 30, 2004</u>	Fund Balance (deficit) <u>June 30, 2003</u>	Increase (Decrease)	Percentage Change
General	\$ (620,625)	\$ (689,211)	\$ 68,586	9.95 %
Bond Retirement	142,463	147,698	(5,235)	(3.54) %
Other Governmental	<u>144,268</u>	<u>73,533</u>	<u>70,735</u>	96.19 %
Total	<u>\$ (333,894)</u>	<u>\$ (467,980)</u>	<u>\$ 134,086</u>	28.65 %

General Fund

The District's general fund deficit balance decreased \$68,586 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund deficit can be attributed to several items related to decreasing revenues and decreased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$333,740. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,181,962	\$ 4,558,356	\$ (376,394)	(8.26) %
Tuition	8,604	6,262	2,342	37.40 %
Earnings on investments	6,963	12,398	(5,435)	(43.84) %
Intergovernmental	721,953	384,842	337,111	87.60 %
Other revenues	<u>205,997</u>	<u>229,910</u>	<u>(23,913)</u>	(10.40) %
Total	<u>\$ 5,125,479</u>	<u>\$ 5,191,768</u>	<u>\$ (66,289)</u>	(1.28) %
<u>Expenditures</u>				
Instruction	\$ 3,167,640	\$ 3,147,431	\$ 20,209	0.64 %
Support services	2,101,101	2,134,282	(33,181)	(1.55) %
Extracurricular activities	161,175	144,345	16,830	11.66 %
Facilities acquisition and construction	-	1,000	(1,000)	(100.00) %
Capital outlay	-	150,000	(150,000)	(100.00) %
Debt service	<u>29,303</u>	<u>17,500</u>	<u>11,803</u>	67.45 %
Total	<u>\$ 5,459,219</u>	<u>\$ 5,594,558</u>	<u>\$ (135,339)</u>	(2.42) %

Bond Retirement Fund

The District's bond retirement fund had \$689,840 in revenues and \$695,075 in expenditures and other financing uses. During fiscal year 2004, the bond retirement fund's fund balance decreased \$5,235 from \$147,698 to \$142,463.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,979,146 and final budgeted revenues and other financing sources were \$6,410,836. Actual revenues and other financing sources for fiscal 2004 was \$6,428,516. This represents a \$17,680 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,499,876 were increased to \$6,838,322 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$6,515,256, which was \$323,066 less than the final budget appropriations.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$4,383,725 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 543,600	\$ 543,600
Land improvements	186,364	199,342
Building and improvements	3,634,281	3,854,401
Furniture and equipment	9,364	10,266
Vehicles	10,116	37,066
Total	\$ 4,383,725	\$ 4,644,675

The overall decrease in capital assets of \$260,950 is due to depreciation expense of \$302,332 exceeding capital outlays of \$41,382 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$1,372,787 in energy conservation notes outstanding. Of this total, \$116,065 is due within one year and \$1,256,722 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
Energy conservation notes	\$ 1,372,787	\$ 1,487,981
General obligation notes	500,000	-
Total	\$ 1,872,787	\$ 1,487,981

At June 30, 2004, the District's overall legal debt margin was \$11,768,218, and an unvoted debt margin of \$129,175.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Current Financial Related Activities

Overall, the District is financially strong. The District relies heavily upon local revenue and property taxes. An increase in tax revenue is expected in fiscal year 2005 due to the increase in the District valuation and triennial update for the county.

The finances are stable for fiscal years 2005 and 2006. However, the District has two levies that will expire during 2007 and will need to be renewed for additional revenue in order to continue with the programs that the District presently has in place.

The challenge for the District's management is to continue to provide the resources necessary to meet student needs and be able to stay within the five-year forecast. The five-year forecast is utilized by management in order to effectively and efficiently manage the District's resources to their fullest.

Since the District relies on local revenue for approximately 93% of the general operating revenues, one of the largest challenges facing the District is that of additional funding. The State of Ohio was found by the Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. 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...". At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The District's system of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Mark Ferrara, Treasurer, Lordstown Local School District, 1824 Salt Springs Road, Warren, Ohio 44481.

BASIC
FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 769,101
Receivables:	
Taxes	5,086,362
Accounts	15,583
Intergovernmental	6,627
Prepayments	30,527
Materials and supplies inventory	3,554
Capital assets:	
Land	543,600
Depreciable capital assets, net	3,840,125
Capital assets, net.	<u>4,383,725</u>
 Total assets.	 <u>10,295,479</u>
Liabilities:	
Accounts payable.	28,288
Accrued wages and benefits	514,560
Pension obligation payable.	127,167
Intergovernmental payable	23,595
Deferred revenue	4,847,563
Accrued interest payable	63,757
General obligation notes payable.	500,000
Long-term liabilities:	
Due within one year.	214,079
Due within more than one year	1,706,004
Total liabilities	<u>8,025,013</u>
Net Assets:	
Invested in capital assets, net of related debt.	2,908,644
Restricted for:	
Capital projects	55,492
Debt service.	169,543
Unrestricted (deficit)	<u>(863,213)</u>
Total net assets	<u><u>\$ 2,270,466</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 2,865,314	\$ 96,353	\$ 51,193	\$ (2,717,768)
Special	605,539	-	114,967	(490,572)
Vocational	180,580	-	-	(180,580)
Other	37,432	-	-	(37,432)
Support services:				
Pupil	175,786	-	1,275	(174,511)
Instructional staff	94,348	-	-	(94,348)
Board of education	108,360	-	-	(108,360)
Administration	382,368	-	4,706	(377,662)
Fiscal	250,205	-	294	(249,911)
Business	6,962	-	-	(6,962)
Operations and maintenance	858,624	945	-	(857,679)
Pupil transportation	302,899	120	-	(302,779)
Operation of non-instructional services:				
Food service operations	205,789	177,106	30,973	2,290
Compact operations	191,186	241,400	-	50,214
Other non-instructional services	3,582	-	3,547	(35)
Extracurricular activities	200,853	17,440	-	(183,413)
Interest and fiscal charges	75,410	-	-	(75,410)
Total governmental activities	<u>\$ 6,545,237</u>	<u>\$ 533,364</u>	<u>\$ 206,955</u>	<u>(5,804,918)</u>
 General Revenues:				
Property taxes levied for:				
General purposes				4,110,829
Debt service				679,167
Grants and entitlements not restricted to specific programs				
Investment earnings				721,953
Miscellaneous				6,963
				144,096
Total general revenues				5,663,008
Change in net assets				(141,910)
Net assets at beginning of year (restated) .				2,412,376
Net assets at end of year				\$ 2,270,466

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 324,449	\$ 138,083	\$ 150,495	\$ 613,027
Receivables:				
Taxes	4,375,454	710,908	-	5,086,362
Accounts	5,318	-	10,265	15,583
Intergovernmental	-	-	6,627	6,627
Interfund receivable	8,921	-	-	8,921
Prepayments	22,202	-	8,325	30,527
Materials and supplies inventory	-	-	3,554	3,554
Restricted assets:				
Equity in pooled cash and cash equivalents	156,074	-	-	156,074
Total assets	<u>\$ 4,892,418</u>	<u>\$ 848,991</u>	<u>\$ 179,266</u>	<u>\$ 5,920,675</u>
Liabilities:				
Accounts payable	\$ 27,723	\$ -	\$ 565	\$ 28,288
Accrued wages and benefits	495,239	-	19,321	514,560
Compensated absences payable	46,553	-	-	46,553
General obligation notes payable	500,000	-	-	500,000
Pension obligation payable	75,496	-	4,040	79,536
Intergovernmental payable	21,444	-	2,151	23,595
Interfund payable	-	-	8,921	8,921
Deferred revenue	4,346,588	706,528	-	5,053,116
Total liabilities	<u>5,513,043</u>	<u>706,528</u>	<u>34,998</u>	<u>6,254,569</u>
Fund Balances:				
Reserved for encumbrances	63,237	-	14,798	78,035
Reserved for materials and supplies inventory	-	-	3,554	3,554
Reserved for prepayments	22,202	-	8,325	30,527
Reserved for property tax unavailable for appropriation	28,866	4,380	-	33,246
Reserved for debt service	-	138,083	-	138,083
Reserved for instructional materials	156,074	-	-	156,074
Unreserved, undesignated (deficit), reported in:				
General fund	(891,004)	-	-	(891,004)
Special revenue funds	-	-	62,099	62,099
Capital projects funds	-	-	55,492	55,492
Total fund balances (deficit)	<u>(620,625)</u>	<u>142,463</u>	<u>144,268</u>	<u>(333,894)</u>
Total liabilities and fund balances	<u>\$ 4,892,418</u>	<u>\$ 848,991</u>	<u>\$ 179,266</u>	<u>\$ 5,920,675</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances (deficit)		\$ (333,894)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,383,725
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 205,553	
Total		205,553
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	398,243	
Pension obligation payable	47,631	
Energy conservation notes	1,372,787	
Capital lease obligation payable	102,500	
Accrued interest payable	63,757	
Total		(1,984,918)
Net assets of governmental activities		\$ 2,270,466

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,181,962	\$ 689,840	\$ -	\$ 4,871,802
Tuition.	8,604	-	-	8,604
Transportation fees	120	-	-	120
Earnings on investments.	6,963	-	-	6,963
Charges for services.	-	-	177,106	177,106
Extracurricular.	-	-	18,385	18,385
Classroom materials and fees	-	-	7,399	7,399
Other local revenues.	205,877	-	259,969	465,846
Intergovernmental - State.	721,953	-	32,658	754,611
Intergovernmental - Federal	-	-	174,297	174,297
Total revenue	<u>5,125,479</u>	<u>689,840</u>	<u>669,814</u>	<u>6,485,133</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,590,343	-	70,121	2,660,464
Special.	466,280	-	124,774	591,054
Vocational.	73,585	-	-	73,585
Other.	37,432	-	-	37,432
Support services:				
Pupil.	154,218	-	3,000	157,218
Instructional staff	94,249	-	99	94,348
Board of education	108,360	-	-	108,360
Administration.	368,295	-	3,390	371,685
Fiscal	249,419	-	212	249,631
Business	6,962	-	-	6,962
Operations and maintenance.	853,938	-	1,688	855,626
Pupil transportation	265,660	-	-	265,660
Food service operations	-	-	205,404	205,404
Compact operations	-	-	193,468	193,468
Other non-instructional services.	-	-	3,582	3,582
Extracurricular activities.	161,175	-	38,762	199,937
Facilities acquisition and construction	-	-	51,556	51,556
Debt service:				
Principal retirement	26,292	115,194	3,708	145,194
Interest and fiscal charges	3,011	76,870	-	79,881
Total expenditures	<u>5,459,219</u>	<u>192,064</u>	<u>699,764</u>	<u>6,351,047</u>
Excess of revenues over (under) expenditures	<u>(333,740)</u>	<u>497,776</u>	<u>(29,950)</u>	<u>134,086</u>
Other financing sources (uses):				
Transfers in	503,011	-	100,685	603,696
Transfers (out).	<u>(100,685)</u>	<u>(503,011)</u>	<u>-</u>	<u>(603,696)</u>
Total other financing sources (uses)	<u>402,326</u>	<u>(503,011)</u>	<u>100,685</u>	<u>-</u>
Net change in fund balances	68,586	(5,235)	70,735	134,086
Fund balances (deficit) at beginning of year (restated)				
	<u>(689,211)</u>	<u>147,698</u>	<u>73,533</u>	<u>(467,980)</u>
Fund balances (deficit) at end of year	<u>\$ (620,625)</u>	<u>\$ 142,463</u>	<u>\$ 144,268</u>	<u>\$ (333,894)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	134,086
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$302,332) exceeds capital outlays (\$41,382) in the current period.		(260,950)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(81,806)
Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		145,194
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		4,471
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(82,905)
Change in net assets of governmental activities	\$	(141,910)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 3,887,712	\$ 4,168,403	\$ 4,168,247	\$ (156)
Tuition.	8,025	8,604	8,604	-
Transportation fees	112	120	120	-
Earnings on investments.	6,494	6,963	6,963	-
Other local revenues	162,043	173,742	191,555	17,813
Intergovernmental - State	673,364	721,980	721,953	(27)
Total revenue	<u>4,737,750</u>	<u>5,079,812</u>	<u>5,097,442</u>	<u>17,630</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,563,720	2,697,253	2,580,676	116,577
Special.	463,560	487,705	463,386	24,319
Vocational.	72,207	75,968	72,180	3,788
Other.	37,446	39,396	37,432	1,964
Support services:				
Pupil.	155,534	163,635	155,476	8,159
Instructional staff	106,797	112,360	106,757	5,603
Board of education	126,668	133,266	126,621	6,645
Administration.	401,277	422,073	401,027	21,046
Fiscal	289,942	305,044	289,833	15,211
Business	24,299	25,565	24,290	1,275
Operations and maintenance.	908,205	955,509	907,864	47,645
Pupil transportation	286,524	301,448	286,417	15,031
Extracurricular activities.	161,986	170,423	161,925	8,498
Total expenditures	<u>5,598,165</u>	<u>5,889,645</u>	<u>5,613,884</u>	<u>275,761</u>
Excess of revenues over (under) expenditures.	<u>(860,415)</u>	<u>(809,833)</u>	<u>(516,442)</u>	<u>293,391</u>
Other financing sources (uses):				
Refund of prior year expenditure.	26,819	28,755	28,754	(1)
Transfers in.	740,456	793,917	793,987	70
Transfers (out)	(895,008)	(941,625)	(894,672)	46,953
Advances in.	8,005	8,583	8,583	-
Advances (out)	(6,703)	(7,052)	(6,700)	352
Proceeds from sale of notes	466,116	499,769	499,750	(19)
Total other financing sources (uses)	<u>339,685</u>	<u>382,347</u>	<u>429,702</u>	<u>47,355</u>
Net change in fund balance	(520,730)	(427,486)	(86,740)	340,746
Fund balance at beginning of year.	476,125	476,125	476,125	-
Prior year encumbrances appropriated	23,298	23,298	23,298	-
Fund balance at end of year	<u>\$ (21,307)</u>	<u>\$ 71,937</u>	<u>\$ 412,683</u>	<u>\$ 340,746</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 5,750	\$ 37,324
Total assets.	5,750	\$ 37,324
Liabilities:		
Accounts payable.	-	\$ 15
Due to students	-	37,309
Total liabilities	-	\$ 37,324
Net Assets:		
Held in trust for scholarships	5,750	
Total net assets	\$ 5,750	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Net assets at beginning of year.	\$ 5,750
Net assets at end of year	<u>\$ 5,750</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District provides regular, vocational and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The District is the 593rd largest in the State of Ohio among the 613 public and community school districts in terms of enrollment. It currently operates 1 elementary school and 1 comprehensive middle/high school. The District is staffed by 24 non-certified and 45 certificated personnel to provide services to approximately 546 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents and Treasurers of the participating school districts are eligible to be voting members of the Governing Board which consists of ten voting members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and one treasurer from each of the aforementioned counties (non-voting members who must be employed by a participating school district, the fiscal agent, or NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A copy of NEOMIN's financial statements may be obtained from the Trumbull County Education Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a JVS, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Fund Accounting

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

GOVERNMENTAL FUNDS

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

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

Bond Retirement Fund - A fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation which is levied for debt charges on bonds or loans, shall be paid into this fund.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

During fiscal year 2004, investments were limited to repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$6,963, which includes \$2,700 assigned from other funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

**LORDSTOWN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**LORDSTOWN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 18.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented 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 for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

**LORDSTOWN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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 government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ (659,104)	\$ 147,698	\$ 76,093	\$ (435,313)
Fund reclassifications	-	-	(2,560)	(2,560)
Implementation of GASB Interpretation No. 6	<u>(30,107)</u>	<u>-</u>	<u>-</u>	<u>(30,107)</u>
Restated fund balance, June 30, 2003	<u>\$ (689,211)</u>	<u>\$ 147,698</u>	<u>\$ 73,533</u>	<u>\$ (467,980)</u>

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

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ (467,980)
GASB 34 adjustments:	
Long-term (deferred) assets	287,359
Capital assets	4,644,675
Accrued interest payable	(68,228)
Pension obligation	(43,217)
Long-term liabilities	<u>(1,940,233)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 2,412,376</u>

**LORDSTOWN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 620,625
 <u>Nonmajor Funds</u>	
Disadvantaged Pupil Impact Aid	35
Title VI-B	8,281
Title I	3,028
Title VI	2,290
Title II	147

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$61,665 and the bank balance was \$75,000. The entire bank balance of \$75,000 was covered by federal depository insurance.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	<u>Category</u> 3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Repurchase agreements	<u>\$ 750,510</u>	<u>\$ 750,510</u>	<u>\$ 750,510</u>
Total investments	<u>\$ 750,510</u>	<u>\$ 750,510</u>	<u>\$ 750,510</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 812,175	\$ -
Investments of the cash management pool:		
Repurchase agreements	<u>(750,510)</u>	<u>750,510</u>
GASB Statement No. 3	<u>\$ 61,665</u>	<u>\$ 750,510</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 8,921

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

<u>Transfers to General Fund from:</u>	
Bond Retirement Fund	\$ 503,011
 <u>Transfers to Nonmajor Governmental funds from:</u>	
General Fund	<u>100,685</u>
 Total transfers	 <u>\$ 603,696</u>

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$28,866 in the general fund and \$4,380 in the Bond Retirement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$15,151 in the general fund and \$2,292 in the Bond Retirement fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 73,426,500	58.91	\$ 79,561,850	61.60
Public utility personal	12,281,240	9.85	11,430,560	8.85
Tangible personal property	<u>38,947,330</u>	<u>31.24</u>	<u>38,182,646</u>	<u>29.55</u>
Total	<u>\$ 124,655,070</u>	<u>100.00</u>	<u>\$ 129,175,056</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 38.10		\$ 43.75	

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 5,086,362
Accounts	15,583
Intergovernmental	<u>6,627</u>
Total	<u>\$ 5,108,572</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy and to include land values not reported in the prior year. See Note 2.H. for detail:

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 543,600	\$ 543,600
Total capital assets, not being depreciated	<u>-</u>	<u>543,600</u>	<u>543,600</u>
Capital assets, being depreciated:			
Land improvements	866,627	62,504	929,131
Buildings and improvements	8,501,979	6,728,991	15,230,970
Furniture and equipment	2,056,792	(1,845,734)	211,058
Vehicles	<u>686,805</u>	<u>(30,513)</u>	<u>656,292</u>
Total capital assets, being depreciated	<u>12,112,203</u>	<u>4,915,248</u>	<u>17,027,451</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(12,926,376)</u>	<u>(12,926,376)</u>
Governmental activities capital assets, net	<u>\$ 12,112,203</u>	<u>\$ (7,467,528)</u>	<u>\$ 4,644,675</u>

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance 06/30/03	<u>Additions</u>	<u>Deductions</u>	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 543,600	\$ -	\$ -	\$ 543,600
Total capital assets, not being depreciated	<u>543,600</u>	<u>-</u>	<u>-</u>	<u>543,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	929,131	-	-	929,131
Buildings and improvements	15,230,970	41,382	-	15,272,352
Furniture and equipment	211,058	-	-	211,058
Vehicles	656,292	-	-	656,292
Total capital assets, being depreciated	<u>17,027,451</u>	<u>41,382</u>	<u>-</u>	<u>17,068,833</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(729,789)	(12,978)	-	(742,767)
Buildings and improvements	(11,376,569)	(261,502)	-	(11,638,071)
Furniture and equipment	(200,792)	(902)	-	(201,694)
Vehicles	(619,226)	(26,950)	-	(646,176)
Total accumulated depreciation	<u>(12,926,376)</u>	<u>(302,332)</u>	<u>-</u>	<u>(13,228,708)</u>
Governmental activities capital assets, net	<u>\$ 4,644,675</u>	<u>\$ (260,950)</u>	<u>\$ -</u>	<u>\$ 4,383,725</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 169,633
Vocational	91,509

Supprt Services:

Operations and maintenance	501
Pupil transportation	40,288
Food service operations	<u>401</u>

Total depreciation expense \$ 302,332

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$150,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$30,000, of which the General fund paid \$26,292 and the Compact fund, a nonmajor governmental fund, paid \$3,708.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2005	\$ 30,000
2006	30,000
2007	30,000
2008	<u>12,500</u>
Total minimum lease payments	102,500
Less amount representing interest	<u>-</u>
Total	<u>\$ 102,500</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The balance of the District’s governmental activities long-term at June 30, 2003 has been restated. The compensated absences liability has been restated by \$99,541 from \$299,964 to \$399,505 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, the pension obligations of \$36,689 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid with one year of fiscal year-end and are reported separately on the statements of net assets. The total effect on governmental activities long-term obligations was an increase of \$62,852 from \$1,957,134 to \$2,019,986
- B. The current obligation notes outstanding, issued to provide funds for energy improvements to District buildings, is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this liability will be recorded as expenditures in the debt service fund.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a description of the District's notes outstanding as of June 30, 2004:

	Interest Rate	Maturity Date	Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
HB 264 energy notes	3.95-5.99%	Various	\$ 1,487,981	\$ -	\$ (115,194)	\$ 1,372,787	\$ 116,065

C. The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Year Ending June 30	Principal on Notes	Interest on Notes	Total
2005	\$ 116,065	\$ 71,687	\$ 187,752
2006	117,525	66,303	183,828
2007	119,071	60,721	179,792
2008	120,711	54,909	175,620
2009	122,449	48,861	171,310
2010 - 2014	642,179	145,277	787,456
2015	134,787	7,673	142,460
Total	\$ 1,372,787	\$ 455,431	\$ 1,828,218

D. During the year ended June 30, 2004, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences, pension obligations, and the early retirement incentive will be paid from the fund in which the employee was paid. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values.

	Restated Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$ 399,505	\$ 148,959	\$ (103,668)	\$ 444,796	\$ 68,014
Energy conservation notes payable	1,487,981	-	(115,194)	1,372,787	116,065
Capital lease obligation	132,500	-	(30,000)	102,500	30,000
Total long-term obligations, governmental activities	\$ 2,019,986	\$ 148,959	\$ (248,862)	\$ 1,920,083	\$ 214,079

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$11,768,218 and an unvoted debt margin of \$129,175.

NOTE 11 - GENERAL OBLIGATION NOTE

The general obligation note was issued for \$500,000 on June 22, 2004, carries an interest rate of 2.97%, and matures on September 30, 2004. The general obligation note was issued in order to provide funds for the general operations of the District through the end of the fiscal year. As of June 30, 2004, the general obligation note is reported as a liability in the general fund on the governmental funds balance sheet and on the governmental activities statement of net assets. The debt service payment of principal and interest on the general obligation note will be recorded as an expenditure in the general fund.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Certified employees do not earn vacation time. Classified employees who are in service for not less than twelve months each year after service of a least one contract year, are entitled to earn vacation according to the following schedule:

<u>Years of Service</u>	<u>Days of Vacation</u>
1 to 9	10
10 to 14	15
15 and up	20

Upon retirement, full-time employees are entitled to the following severance payments:

Certified employees with five years of service receive a payment of thirty percent of their unused sick leave up to a maximum of thirty days. Certified employees with years of service between ten and nineteen years, receive an additional one-seventh of unused sick balance up to twenty-eight days, for a total maximum of fifty-eight severance days. Certified employees with greater than twenty years of service receive an additional one-seventh of unused sick balance up to forty days, for a total maximum of seventy severance days.

Classified employees shall receive a payment of one-third of their unused sick leave up to a maximum of two hundred ten days.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Harcum-Hyre	\$ 2,000,000	\$ 0
Aggregate		5,000,000	0
Property	Harcum-Hyre	37,912,900	5,000
Fleet:			
Comprehensive	Harcum-Hyre	3,000,000	100
Collision		3,000,000	100
Boiler and machinery	Harcum-Hyre	15,560,100	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Employee Group Medical, Dental and Vision Insurance

The District has elected to provide a fully insured PPO medical plan. This package provides a comprehensive medical plan where members pay \$5 per visit with no deductible within the network. If members elect to go out of the network, the plan pays 80% with a deductible of \$100 for single and \$200 for family. The medical plan is administered by Medical Mutual of Ohio. The total monthly premium for the medical plan is \$453.59 for single coverage and \$1,159.12 for family coverage.

The District provides dental coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$37.41 for single and \$93.57 for family coverage. This premium includes the employee portion, which is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement.

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$15.45 for single coverage and \$38.60 for family coverage. This premium includes the employee portion, which is paid by the District. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$94,419, \$88,777, and \$116,167, respectively; 46.02% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$50,966 represents the unpaid contribution for fiscal year 2004.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$340,736, \$343,573, and \$495,614, respectively; 81.64% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$62,564 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$29 made by the District and \$137 made by plan members.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$24,338 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$39,795 during the 2004 fiscal year.

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (86,740)
Net adjustment for revenue accruals	28,037
Net adjustment for expenditure accruals	86,825
Net adjustment for other sources/uses	(27,376)
Adjustment for encumbrances	67,840
GAAP basis	\$ 68,586

NOTE 17 - CONTINGENCIES

A. Grants

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

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

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ 183,264	\$ (159,328)
Current year set-aside requirement	80,916	80,916
Qualifying disbursements	<u>(108,106)</u>	<u>(81,469)</u>
Total	<u>\$ 156,074</u>	<u>\$ (159,881)</u>
Cash balance carried forward to FY 2004	<u>\$ 156,074</u>	<u>\$ (159,881)</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for instructional materials	<u>\$ 156,074</u>
Total restricted assets	<u>\$ 156,074</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve. This extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

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Auditor of State Betty Montgomery

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

Lordstown Local School District
Trumbull County
1824 Salt Springs Road
Warren, Ohio 44481

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lordstown Local School District, Trumbull County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated April 15, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of Lordstown Local School District in a separate letter dated April 15, 2005.

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

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

Betty Montgomery
Auditor of State

April 15, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL 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
MAY 17, 2005**