



**Auditor of State
Betty Montgomery**

**LAKE LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Lake Local School District
Stark County
11936 King Church Avenue
Uniontown, Ohio 44685

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, the capital appreciation bond portion of the 2000 General Obligation bond issue was incorrectly reported. Accordingly, the Governmental Activities net asset balance as of July 1, 2004 was restated to correct for this error.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 3, 2006

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the Lake Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers should review the notes to the financial statements as well as the financial statements themselves to enhance their understanding of the School District's finances.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

- Governmental Activities: General Revenues accounted for \$25.4 million in revenue or 91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2.7 million or 9% of total revenues of \$28.1 million.
- Total program expenses were \$31.1 million, \$30 million in Governmental Activities, \$1.1 million in Business Type Activities.
- In total, net assets decreased \$1.8 million or 10%. Net assets of governmental activities decreased \$1.9 million, and net assets of business-type activities increased \$0.1 million from 2004.

Using this Annual Report

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and fund financial statements.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Lake Local School District, the general fund and debt service funds are the most significant funds.

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

Lake Local School District
Management's Discussion and Analysis
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Unaudited

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School 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 School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District adult and supplemental education programs, food service, and uniform school supplies are reported as business activities.

The government-wide financial statements begin on page 13.

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and debt service fund.

Governmental Funds - Most of the School 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 statements provide a detailed short-term view of the School 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 financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 16.

Proprietary Funds - The School District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The School District uses enterprise funds to account for its food service, uniform supplies, and adult and supplemental education programs.

The proprietary fund financial statements begin on page 22.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used of proprietary funds.

The fiduciary fund financial statements begin on page 25.

Notes to the 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. The notes to the financial statements begin on page 27.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$ 19,636,781	\$ 20,955,231	\$ 300,981	\$ 244,048	\$ 19,937,762	\$ 21,199,279
Capital Assets	38,975,108	38,622,157	117,856	151,018	39,092,964	38,773,175
Total Assets	58,611,889	59,577,388	418,837	395,066	59,030,726	59,972,454
Liabilities						
Long-Term Liabilities	(27,628,451)	(26,031,000)	(18,092)	(9,037)	(27,646,543)	(26,040,037)
Other Liabilities	(15,557,450)	(16,230,402)	(104,713)	(127,124)	(15,662,163)	(16,357,526)
Total Liabilities	(43,185,901)	(42,261,402)	(122,805)	(136,161)	(43,308,706)	(42,397,563)
Net Assets						
Invested in Capital Assets Net of Debt	8,765,108	12,799,851	117,856	151,018	8,882,964	12,950,869
Restricted	5,241,967	2,441,475	138,096	72,795	5,380,063	2,514,270
Unrestricted (Deficit)	1,418,913	2,074,660	40,080	35,092	1,458,993	2,109,752
Total Net Assets	\$ 15,425,988	\$ 17,315,986	\$ 296,032	\$ 258,905	\$ 15,722,020	\$ 17,574,891

Total net assets decreased by \$1.8 million with governmental activities comprising most of that amount. An increase of approximately \$.3 million in total capital assets reflects additional purchases exceeding depreciation. Liabilities increased \$.9 million due to issuance of additional debt.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004.

(Table 2)
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,131,308	\$ 509,303	\$ 926,425	\$ 879,144	\$ 2,057,733	\$ 1,388,447
Operating Grants	1,526,212	1,253,021	187,466	168,575	1,713,678	1,421,596
Capital Grants and Contributions	0	1,289,041	0	0	0	1,289,041
<i>General Revenue:</i>						
Property Taxes	11,274,629	10,678,497	0	0	11,274,629	10,678,497
Grants and Entitlements	13,973,936	13,358,204	0	0	13,973,936	13,358,204
Other Revenue	205,125	141,665	3,712	1,172	208,837	142,837
Total Revenues	28,111,210	27,229,731	1,117,603	1,048,891	29,228,813	28,278,622
Program Expenses						
Instruction	15,323,697	14,122,876	0	0	15,323,697	14,122,876
Support Services	10,692,889	10,342,795	0	0	10,692,889	10,342,795
Operation of Non-Instructional	410,299	506,443	0	0	410,299	506,443
Extracurricular Activities	748,738	664,641	0	0	748,738	664,641
Interest and Fiscal Charges	2,826,695	1,422,398	0	0	2,826,695	1,422,398
Enterprise Funds	0	0	1,079,366	920,738	1,079,366	920,738
Total Expenses	30,002,318	27,059,153	1,079,366	920,738	31,081,684	27,979,891
Increase (Decrease) in Net Assets before Transfers	(1,891,108)	170,578	38,237	128,153	(1,852,871)	298,731
Net Transfers	1,110	604	(1,110)	0	0	604
Increase (Decrease) in Net Assets	\$ (1,889,998)	\$ 171,182	\$ 37,127	\$ 128,153	\$ (1,852,871)	\$ 299,335

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 3)
Governmental Activities

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 15,323,697	\$ 14,186,868	\$ 14,122,876	\$ 13,245,485
Support Services:				
Pupil and Instructional Staff	2,432,950	2,243,686	2,449,315	2,222,579
Board of Education, Administration, Fiscal and Business	3,146,664	2,768,067	3,164,084	3,124,735
Operation and Maintenance of Plant	3,251,156	3,081,270	3,115,056	1,807,732
Pupil Transportation	1,734,071	1,734,071	1,455,365	1,455,365
Central	128,048	(5,211)	158,975	105,097
Operation of Non-Instructional	410,299	54,353	506,443	204,741
Extracurricular Activities	748,738	454,999	664,641	419,656
Interest and Fiscal Charges	2,826,695	2,826,695	1,422,398	1,422,398
Total Expenses	<u>\$ 30,002,318</u>	<u>\$ 27,344,798</u>	<u>\$ 27,059,153</u>	<u>\$ 24,007,788</u>

Instruction and Student Support Services comprise 59% of governmental program expenses. Interest and fiscal charges were approximately 9%. Interest expense was attributable to the outstanding general obligation bonds and costs related to the refunding. Pupil transportation and the operation and maintenance of facilities accounts for 17% of governmental program expenses.

The dependence upon tax revenues, grants, and entitlements for governmental activities is apparent. The community, as a whole, is by far the primary support for Lake Local School District students.

Business-Type Activities

Business-type activities include our adult and supplemental education programs, the food service operation and the sale of uniform school supplies. These programs had revenues of \$1.1 million and expenses of \$1.0 million for fiscal year 2005.

Financial Analysis of the Government's Funds

Governmental Funds

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School Districts financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School District's net resources available for spending at year-end.

The School District's governmental funds (as presented on the balance sheet on pages 16-17) reported a total fund balance of \$5.7 million, which is \$1.3 million less than last year's balance of \$7 million. The most significant changes within the School District's major funds was reported in the General fund with a decrease in fund balance of \$1.1 million.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

General Fund

The general fund is the main operating fund of the School District. At the end of 2005, the fund balance in the general fund was \$3.8 million, which is a decrease of \$1.1 from 2004, which is primarily due to an increase in accrued wages and benefits and related payables.

Debt Service Fund

The debt service fund is the School District fund that accumulates tax revenues to pay general obligation bonds. At the end of 2005, the fund balance in the debt service fund was \$1.7 million, which is an increase of \$.6 million from 2004 that can partially be attributed to a premium on debt issuance.

General Fund Budgeting Highlights

The School 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.

For the general fund, budget basis revenue was \$23.5 million, \$.8 million over original budget estimates of \$22.7 million.

Final general fund appropriations were \$24.4 million, \$.3 million over the \$24.1 million in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had over \$39 million invested in land, buildings and equipment. Table 4 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,993,257	\$ 2,993,257	\$ 0	\$ 0	\$ 2,993,257	\$ 2,993,257
Construction in Progress	0	18,029,778	0	0	0	18,029,778
Buildings and Improvements	33,055,851	14,371,956	0	0	33,055,851	14,371,956
Furniture and Equipment	1,838,896	2,091,792	117,856	151,018	1,956,752	2,242,810
Vehicles	1,087,104	1,117,079	0	0	1,087,104	1,117,079
Educational Media	0	18,295	0	0	0	18,295
Totals	\$ 38,975,108	\$ 38,622,157	\$ 117,856	\$ 151,018	\$ 39,092,964	\$ 38,773,175

The \$.3 million increase in capital assets was attributable to additions to capital assets exceeding depreciation. For additional information see Note 9.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Debt

At June 30, 2005, the School District had \$26.2 million in bonds outstanding with \$1.1 million due within one year. During fiscal year 2005, \$.5 million of general obligation bonds were retired and \$22 million of general obligation bonds were refunded. For additional information see Note 14. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities	
	2005	Restated 2004
General Obligation Bonds:		
2000 Improvement 5.8%	\$ 2,195,000	\$ 24,640,000
2000 Capital Appreciation Bonds	659,945	659,945
2000 Capital Appreciation Bonds - Accretion	1,171,764	1,155,445
2003 Real Estate Acquisition 3.79%	200,000	250,000
2005 Refunding	21,000,000	0
2005 Capital Appreciation Bonds	954,950	0
2005 Capital Appreciation Bonds - Accretion	16,409	0
	\$ 26,198,068	\$ 26,705,390

Current Issues

As the preceding information shows, the School District relies heavily on its local property taxpayers for support of the public school system. The last operating levy passed by the residents of the School District was in May, 1995. That issue for 13.9 mills (9.9 mill replacement plus 4.0 mills additional) was designed to last the School District for a period of five years. Through a combination of enhanced State funding in the late 1990's and prudent oversight of expenditures, the School District has now gone ten years without additional operating funds from local property taxes. However, growth in State and local funding has now failed to keep pace with expenditures forcing the School District to be proactive in seeking additional local revenue. As a result, the Board of Education was on the ballot in May 2005 with an 11.0 mill replacement issue. This issue would "replace" two issues on the School District's tax duplicate from 1971 and 1972 on which the School District is currently collecting 2.4 mills. Passage of the issue would have generated a net increase of 8.6 mills to the School District and was projected to meet the School District's operational needs for a minimum of five years. The issue was defeated by a vote of 2,040 (45%) to 2,469 (55%). The Board of Education placed on the ballot in November 2005 an 8.6 mill additional issue. The issue was again defeated. The Board of Education was back on the ballot in February 2006 with an 11.1 mill issue. This issue was passed and certified by the Stark County Board of Elections.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Real estate and personal property tax collections have shown moderate increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$30.63 annually in taxes. Based on a subsequent valuation, the home may be reappraised at \$125,000 (an inflationary increase in value comparable to other property owners) the effective tax rate would become .8 mills and the owner would still pay \$30.63.

School districts dependent upon local property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 40% of revenues for governmental activities for the School District in fiscal year 2005. In spite of the School District's growth in valuation, we continue to face reductions in State funding due to the current funding formula which charges 23.0 mills against our Foundation as a responsibility of local taxpayers to bear an increasing financial burden relative to overall funding.

The School District has been and will continue to be affected by changes in Ohio's personal property tax structure (utility deregulation) and the implementation of a new commercial business/property tax structure (Commercial Activity Tax enacted as part of AM. Sub. HB 66). Management continues to diligently monitor and control planned expenditures. However, this task has been made increasingly difficult due to curriculum mandates, rising utility costs, required special education services, and significant increases in both health and property/liability/fleet insurance.

From a State funding perspective, the State was found by the Ohio Supreme Court in March, 1997 and in three subsequent decisions to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". The State continues to direct its revenue growth toward school districts with little property tax wealth and the larger urban districts. The vast majority of school districts throughout the State continue to ask when the standards to provide an "adequate" and "equitable" system for funding public education as outlined by the Ohio Supreme Court will be met.

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the dictates of the Court, the State may require redistribution of state funding based upon each school district's property wealth. This could have a significant impact on the School District. How and when the legislature plans to fund education programs in light of the state's weakened economy remains a concern.

All scenarios require the School District to plan carefully and prudently to provide the necessary resources to meet student needs over the next several years.

In summary, the School District has implemented systems for both budgetary and internal control purposes and continues to provide a quality educational program with a limited availability of financial assistance. All of the School District's resources continue to be focused on meeting the needs of our stakeholders in a worldwide competitive marketplace.

Lake Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Robert Moffat, Treasurer of Lake Local School District, 11936 King Church Avenue NW, Uniontown, OH 44685.

Lake Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 7,766,715	\$ 271,983	\$ 8,038,698
Cash and Cash Equivalents:			
Restricted Cash	23,621	0	23,621
With Fiscal Agents	653,591	0	653,591
Receivables:			
Taxes	10,770,943	0	10,770,943
Accounts	20,000	0	20,000
Internal Balances	3,470	(3,470)	0
Intergovernmental	98,217	17,780	115,997
Inventory	0	14,688	14,688
Deferred Charges - Issuance Costs	300,224	0	300,224
Nondepreciable Capital Assets	2,993,257	0	2,993,257
Depreciable Capital Assets (Net)	35,981,851	117,856	36,099,707
<i>Total Assets</i>	<u>58,611,889</u>	<u>418,837</u>	<u>59,030,726</u>
Liabilities			
Accounts Payable	158,926	7,385	166,311
Accrued Wages and Benefits	2,693,718	69,358	2,763,076
Retainage Payable	23,621	0	23,621
Intergovernmental Payable	707,090	27,970	735,060
Unearned Revenue	9,730,653	0	9,730,653
Bond Premium	2,208,902	0	2,208,902
Matured Compensated Absences	34,540	0	34,540
Long Term Liabilities:			
Due Within One Year	1,573,533	0	1,573,533
Due in More Than One Year	26,054,918	18,092	26,073,010
<i>Total Liabilities</i>	<u>43,185,901</u>	<u>122,805</u>	<u>43,308,706</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,765,108	117,856	8,882,964
Restricted for:			
Capital Projects	8,517	0	8,517
Debt Service	3,665,411	0	3,665,411
Other Purposes	1,568,039	138,096	1,706,135
Unrestricted	1,418,913	40,080	1,458,993
<i>Total Net Assets</i>	<u>\$ 15,425,988</u>	<u>\$ 296,032</u>	<u>\$ 15,722,020</u>

See accompanying notes to the basic financial statements.

Lake Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Current:			
Instruction:			
Regular	\$ 11,881,308	\$ 159,444	\$ 159,578
Special	2,321,395	0	785,136
Vocational	272,957	0	30,577
Adult Continuing	1,860	0	2,094
Other	846,177	0	0
Support services:			
Pupils	972,987	23,158	53,809
Instructional Staff	1,459,963	0	112,297
Board of Education	23,955	0	0
Administration	2,528,887	313,412	11,775
Fiscal	519,136	53,410	0
Business	74,686	0	0
Operation and Maintenance of Plant	3,251,156	154,886	15,000
Pupil Transportation	1,734,071	0	0
Central	128,048	133,259	0
Operation of Non-Instructional Services	410,299	0	355,946
Extracurricular Activities	748,738	293,739	0
Interest and Fiscal Charges	2,819,372	0	0
Bond Issuance Costs	7,323	0	0
<i>Total Governmental Activities</i>	<u>30,002,318</u>	<u>1,131,308</u>	<u>1,526,212</u>
Business-Type Activities			
Food Service	851,358	694,025	187,466
Uniform School Supplies	127,193	124,681	0
Adult Education	1,000	1,500	0
Supplemental Education	99,815	106,219	0
<i>Total Business-Type Activities</i>	<u>1,079,366</u>	<u>926,425</u>	<u>187,466</u>
<i>Totals</i>	<u>\$ 31,081,684</u>	<u>\$ 2,057,733</u>	<u>\$ 1,713,678</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Grants and Entitlements not Restricted

to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Net Transfers

Change in Net Assets

Net Assets Beginning of Year (Restated See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (11,562,286)	\$ 0	\$ (11,562,286)
(1,536,259)	0	(1,536,259)
(242,380)	0	(242,380)
234	0	234
(846,177)	0	(846,177)
(896,020)	0	(896,020)
(1,347,666)	0	(1,347,666)
(23,955)	0	(23,955)
(2,203,700)	0	(2,203,700)
(465,726)	0	(465,726)
(74,686)	0	(74,686)
(3,081,270)	0	(3,081,270)
(1,734,071)	0	(1,734,071)
5,211	0	5,211
(54,353)	0	(54,353)
(454,999)	0	(454,999)
(2,819,372)	0	(2,819,372)
(7,323)	0	(7,323)
(27,344,798)	0	(27,344,798)
0	30,133	30,133
0	(2,512)	(2,512)
0	500	500
0	6,404	6,404
0	34,525	34,525
(27,344,798)	34,525	(27,310,273)
9,504,333	0	9,504,333
1,770,296	0	1,770,296
13,973,936	0	13,973,936
179,429	3,712	183,141
25,696	0	25,696
25,453,690	3,712	25,457,402
1,110	(1,110)	0
(1,889,998)	37,127	(1,852,871)
17,315,986	258,905	17,574,891
\$ 15,425,988	\$ 296,032	\$ 15,722,020

Lake Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 5,583,184	\$ 1,587,243	\$ 500,390	\$ 7,670,817
Cash and Cash Equivalents:				
Restricted Cash	95,898	0	23,621	119,519
With Fiscal Agents	653,591	0	0	653,591
Receivables:				
Taxes	9,264,295	1,506,648	0	10,770,943
Accounts	20,000	0	0	20,000
Interfund	162,884	0	0	162,884
Intergovernmental	0	0	98,217	98,217
<i>Total Assets</i>	<u>\$ 15,779,852</u>	<u>\$ 3,093,891</u>	<u>\$ 622,228</u>	<u>\$ 19,495,971</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 57,088	\$ 0	\$ 101,838	\$ 158,926
Accrued Wages and Benefits	2,627,700	0	66,018	2,693,718
Retainage Payable	0	0	23,621	23,621
Interfund Payable	0	0	159,414	159,414
Intergovernmental Payable	688,900	0	18,190	707,090
Deferred Revenue	8,607,245	1,374,018	24,983	10,006,246
Matured Compensated Absences	34,540	0	0	34,540
<i>Total Liabilities</i>	12,015,473	1,374,018	394,064	13,783,555
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	95,847	0	111,498	207,345
Reserved for Tax Revenue Unavailable for Appropriation	657,050	132,630	0	789,680
Reserved for Budget Stabilization	95,898	0	0	95,898
Unreserved, Reported in:				
General Fund	2,915,584	0	0	2,915,584
Special Revenue Funds	0	0	194,066	194,066
Debt Service Fund	0	1,587,243	0	1,587,243
Capital Projects Funds	0	0	(77,400)	(77,400)
<i>Total Fund Balances</i>	<u>3,764,379</u>	<u>1,719,873</u>	<u>228,164</u>	<u>5,712,416</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 15,779,852</u>	<u>\$ 3,093,891</u>	<u>\$ 622,228</u>	<u>\$ 19,495,971</u>

See accompanying notes to the basic financial statements.

Lake Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2005*

Total Governmental Fund Balances	\$	5,712,416
<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.		38,975,108
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants	\$	24,983
Delinquent Property Taxes		250,610
Deferred Charges - Issuance Costs		300,224
		575,817
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds		26,198,068
Bond Premium		2,208,902
Compensated Absences		1,235,801
Capital Lease Payable		194,582
		(29,837,353)
Net Assets of Governmental Activities	\$	15,425,988

Lake Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 9,423,043	\$ 1,762,456	\$ 0	\$ 11,185,499
Intergovernmental	13,722,970	223,771	1,535,324	15,482,065
Investment Income	156,994	0	22,435	179,429
Tuition and Fees	126,441	0	33,789	160,230
Extracurricular Activities	2,697	0	388,138	390,835
Rentals	53,410	0	0	53,410
Gifts and Donations	0	0	542,783	542,783
Miscellaneous	17,179	0	8,517	25,696
<i>Total Revenues</i>	<u>23,502,734</u>	<u>1,986,227</u>	<u>2,530,986</u>	<u>28,019,947</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,305,028	0	232,017	11,537,045
Special	1,531,989	0	802,000	2,333,989
Vocational	260,031	0	31,318	291,349
Adult Continuing	0	0	1,860	1,860
Other	846,177	0	0	846,177
Support Services:				
Pupils	909,635	0	77,939	987,574
Instructional Staff	1,341,225	0	112,771	1,453,996
Board of Education	23,974	0	0	23,974
Administration	2,428,959	0	65,826	2,494,785
Fiscal	487,203	26,304	0	513,507
Business	73,438	0	0	73,438
Operation and Maintenance of Plant	2,724,963	0	26,576	2,751,539
Pupil Transportation	1,704,449	0	0	1,704,449
Central	21,454	0	112,904	134,358
Operation of Non-Instructional Services	45,051	0	372,931	417,982
Extracurricular Activities	559,277	0	236,521	795,798
Capital outlay	180,180	0	1,260,046	1,440,226
Debt Service:				
Principal Retirement	77,779	540,000	0	617,779
Interest and Fiscal Charges	15,413	871,368	0	886,781
Bond Issuance Costs	0	307,547	0	307,547
<i>Total Expenditures</i>	<u>24,536,225</u>	<u>1,745,219</u>	<u>3,332,709</u>	<u>29,614,153</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,033,491)	241,008	(801,723)	(1,594,206)
Other Financing Sources (Uses):				
Refunding Bonds	0	21,954,950	0	21,954,950
Payment of Refund Bond Escrow Agent	0	(23,913,237)	0	(23,913,237)
Bond Premiums	0	2,267,276	0	2,267,276
Transfers In	0	59,080	19,120	78,200
Transfers Out	(77,090)	0	0	(77,090)
<i>Total Financing Sources and (Uses)</i>	<u>(77,090)</u>	<u>368,069</u>	<u>19,120</u>	<u>310,099</u>
<i>Net Change in Fund Balance</i>	(1,110,581)	609,077	(782,603)	(1,284,107)
<i>Fund Balance at Beginning of Year</i>	<u>4,874,960</u>	<u>1,110,796</u>	<u>1,010,767</u>	<u>6,996,523</u>
<i>Fund Balance at End of Year</i>	<u>\$ 3,764,379</u>	<u>\$ 1,719,873</u>	<u>\$ 228,164</u>	<u>\$ 5,712,416</u>

See accompanying notes to the basic financial statements.

Lake Local School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	(1,284,107)
<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 capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	\$ 1,687,921	
Current Year Depreciation	<u>(1,144,815)</u>	543,106
Net effect of transactions involving sale of capital assets are not reflected in the funds.		(190,155)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	2,133	
Delinquent Property Taxes	<u>89,130</u>	91,263
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Premium Amortization	58,374	
Bond Principal	540,000	
Capital Leases	<u>77,779</u>	676,153
Issuance of refunding bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as long term assets and liabilities.		
Payment to refund bond escrow agent	23,913,237	
Interest payment on refunded bonds	(1,958,237)	
Proceeds of debt issuance	(21,954,950)	
Issuance costs and bond premiums, net	<u>(1,959,729)</u>	(1,959,679)
Some expenses reported in the statement of net activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Increase in Compensated Absences	(63,650)	
Decrease in Early Retirement Incentive	90,000	
Decrease in Pension Obligation	247,122	
Bond Accretion	(32,728)	
Amortization of Issuance Costs	<u>(7,323)</u>	233,421
Change in Net Assets of Governmental Activities	\$	<u>(1,889,998)</u>

Lake Local School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 9,042,748	\$ 9,427,943	\$ 9,427,943	\$ 0
Intergovernmental	13,425,702	13,722,970	13,722,970	0
Investment Income	70,000	156,994	156,994	0
Tuition and Fees	112,800	126,458	126,458	0
Miscellaneous	65,400	70,727	70,727	0
<i>Total Revenues</i>	<u>22,716,650</u>	<u>23,505,092</u>	<u>23,505,092</u>	<u>0</u>
Expenditures:				
Current				
Instruction	13,607,527	13,771,115	13,771,115	0
Support Services:				
Pupils	893,467	907,703	907,703	0
Instructional Staff	1,324,854	1,341,616	1,341,616	0
Board of Education	61,622	23,957	23,957	0
Administration	2,531,626	2,400,045	2,400,045	0
Fiscal	504,646	497,256	497,256	0
Business	76,009	74,008	74,008	0
Operation and Maintenance of Plant	2,628,651	2,790,542	2,790,542	0
Pupil Transportation	1,588,292	1,710,792	1,710,792	0
Central	54,388	32,273	32,273	0
Operation of Non-Instructional Services	45,676	44,037	44,037	0
Extracurricular Activities	559,008	539,213	539,213	0
Capital Outlay	114,249	180,312	180,312	0
Debt Service				
Principal Retirement	77,779	77,779	77,779	0
Interest and Fiscal Charges	15,413	15,413	15,413	0
<i>Total Expenditures</i>	<u>24,083,207</u>	<u>24,406,061</u>	<u>24,406,061</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	(1,366,557)	(900,969)	(900,969)	0
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	0	802	802	0
Refund of Prior Year Receipts	0	(960)	(960)	0
Other Financing Uses	(758)	(724)	(724)	0
Advances In	0	556,161	556,161	0
Advances Out	(5,000)	(48,391)	(48,391)	0
Transfers Out	(70)	(77,107)	(77,107)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(5,828)</u>	<u>429,781</u>	<u>429,781</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,372,385)	(471,188)	(471,188)	0
<i>Fund Balance at Beginning of Year</i>	6,067,344	6,067,344	6,067,344	0
Prior Year Encumbrances Appropriated	419,355	419,355	419,355	0
<i>Fund Balance at End of Year</i>	<u>\$ 5,114,314</u>	<u>\$ 6,015,511</u>	<u>\$ 6,015,511</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

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Lake Local School District
Statement of Net Assets
Proprietary Funds
June 30, 2005

	NonMajor Enterprise Funds
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 271,983
Intergovernmental Receivable	17,780
Inventory	14,688
<i>Total Current Assets</i>	304,451
Non Current Assets:	
Depreciable Capital Assets (Net)	117,856
<i>Total Assets</i>	422,307
Liabilities	
Current Liabilities:	
Accounts Payable	7,385
Accrued Wages and Benefits	69,358
Interfund Payable	3,470
Intergovernmental Payable	27,970
<i>Total Current Liabilities</i>	108,183
Long Term Liabilities:	
Compensated Absences	18,092
<i>Total Liabilities</i>	126,275
Net Assets	
Invested in Capital Assets	117,856
Restricted	138,096
Unrestricted	40,080
<i>Total Net Assets</i>	\$ 296,032

See accompanying notes to the basic financial statements.

Lake Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Nonmajor Enterprise Funds
Operating Revenues:	
Tuition	\$ 107,719
Sales	694,025
Charges for Services	124,681
<i>Total Operating Revenues</i>	926,425
Operating Expenses:	
Salaries	389,217
Fringe Benefits	102,790
Purchased Services	30,901
Materials and Supplies	544,340
Depreciation	10,893
Other	1,225
<i>Total Operating Expenses</i>	1,079,366
Operating Loss	(152,941)
Non-Operating Revenues (Expenses):	
Federal Donated Commodities	41,677
Grants	145,789
Interest	3,712
<i>Total Non-Operating Revenues (Expenses)</i>	191,178
<i>Income Before Transfers</i>	38,237
Transfers In	596
Transfers Out	(1,706)
<i>Change in Net Assets</i>	37,127
<i>Net Assets Beginning of Year</i>	258,905
<i>Net Assets End of Year</i>	\$ 296,032

See accompanying notes to the basic financial statements.

Lake Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	NonMajor Enterprise Funds
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 927,678
Cash Paid for Goods and Services	(635,510)
Cash Paid to Employees	(376,706)
	(84,538)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>(84,538)</i>
Cash Flows From Non-Capital Financing Activities:	
Transfers to Other Funds	(1,706)
Transfers from Other Funds	596
Advances to Other Funds	(24,021)
Advances from Other Funds	3,470
Operating Grants Received	147,491
	125,830
<i>Net Cash Provided By (Used For) Non-Capital Financing Activities</i>	<i>125,830</i>
Cash Flows From Investing Activities:	
Interest on Investments	3,712
	3,712
<i>Net Cash Provided By (Used For) Investing Activities</i>	<i>3,712</i>
Cash Flows From Capital and Related Financing Activities:	
Payment for Capital Acquisitions	(5,164)
	(5,164)
<i>Net Cash Provided By (Used For) Capital and Related Financing Activities</i>	<i>(5,164)</i>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<i>39,840</i>
<i>Cash and Cash Equivalents at Beginning of Year</i>	<i>232,143</i>
<i>Cash and Cash Equivalents at End of Year</i>	<i>\$ 271,983</i>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ (152,941)
Adjustments:	
Depreciation	10,893
Federal Donated Commodities	41,677
Loss on Disposal of Assets	27,433
(Increase) Decrease Assets	
Accounts Receivable	1,253
Inventory	503
Increase (Decrease) in Liabilities	
Accounts Payable	(31,641)
Accrued Wages and Benefits	19,239
Compensated Absences Payable	9,055
Due to Other Governments	(10,009)
	68,403
<i>Total Adjustments</i>	<i>68,403</i>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ (84,538)</i>
Noncash items:	
The Food Service Fund received \$41,677 in Federally Donated Commodities.	
The Food Service Fund disposed of assets with a loss of \$1,418.	

See accompanying notes to the basic financial statements.

Lake Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 102,875</u>
Liabilities	
Undistributed Monies	\$ 1,206
Due to Students	<u>101,669</u>
<i>Total Liabilities</i>	<u>\$ 102,875</u>

See accompanying notes to the basic financial statements.

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Lake Local School District
Stark County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the School District

The Lake Local School District (the School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by the State and federal agencies. The Board of Education controls the School District's five school buildings, community complex, athletic complex, transportation/maintenance facility, and administrative office staffed by 228 certified employees and 162 classified employees who provide services to 3,427 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. The School District has no component units.

The School District participates in one jointly governed organization and one public entity risk pool. These organizations include the Stark/Portage Area Computer Consortium (SPARCC) and the Stark County Schools Council of Government. These organizations are presented in Notes 10 and 19 to the basic financial statements.

The following activity is not part of the reporting entity and is excluded from the accompanying financial statements:

Non-Public Schools Within the School District's boundaries, Hartville Christian and Lake Center Christian Schools are operated by religious organizations. Current state legislation provides funding to these schools. The monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District. The accounting of these state monies is reflected as part of the School District's special revenue funds.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its business-type activities and to its propriety activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the School District has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures*." The most significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for the four business-type activities of the School 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the 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.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(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 School District's major governmental funds:

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

Debt Service Fund The debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, principal and interest obligations relative to the School District's general obligation bonds.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the School District's proprietary fund type:

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency fund account for student activities.

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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.

Lake Local School District
Stark County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

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

D. Basis of Accounting

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

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 School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Lake Local School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

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 operating statement as an expense with a like amount reported as donated commodities 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2005, investments were limited to STAROhio (the State Treasurer's Investment Pool).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$156,994, which includes \$33,535 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the enterprise fund are expensed when used.

**Lake Local School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. See Note 21 for additional information regarding set asides. Restricted assets in the Permanent Improvement Fund include amounts held by a third party for retainage payable to contractors.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. 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.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	10 - 40 Years	N/A
Furniture and Equipment	5 - 20 Years	20 Years
Vehicles	13 Years	N/A
Textbooks	5 Years	N/A

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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**Lake Local School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

J. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits 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 fiscal year. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes are primarily for instruction of students.

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

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For the Fiscal Year Ended June 30, 2005
(Continued)*

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education classes, supplemental education, sales for food service including vending and catering, and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

O. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during the current fiscal year.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

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

Q. Extraordinary and Special Items

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

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
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R. Estimates

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

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. Throughout the fiscal year, the primary level of budgetary control was at the function level within the General Fund. For all other funds, the legal level of control was at the fund level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Note 3 – Restatement of Net Assets

For fiscal year 2005, the School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

Finally, the School District elected to change the capitalization threshold from \$500 to \$1,000 during fiscal year 2005.

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

The implementation of GASB Statement No. 40, GASB Technical Bulletin No. 2004-2 and the change in capitalization threshold did not have a significant effect on the financial statements of the School District. Refer to Note 6 for additional documentation concerning GASB Statement No. 40.

In the prior fiscal year, the capital appreciation bond portion of the 2000 general obligation bond issue was not accurately reported. Therefore, no liability for the accretion on the bond was recognized. The following adjustment will show the accretion that should have been recorded through June 30, 2004.

	Governmental Activities
Net Assets, June 30, 2004	\$ 18,471,431
Accretion on capital appreciation bonds	(1,155,445)
Restated net assets at June 30, 2004	\$ 17,315,986

Note 4 - Fund Deficits/Accountability

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

	Deficit Fund Balance
Nonmajor Funds:	
Permanent Improvement Fund	\$ 59,083
Vocational Education	6,163
Title III	784
Title I	9,122
Title II-A	18,832

The deficits in these nonmajor funds are the result of adjustments for accrued liabilities and the timing of receipts. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

Also, contrary to Ohio Revised Code Section 5705.41(B), expenditures exceeded appropriations in the Debt Service Fund for certain expenditure line items.

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*Notes to the Basic Financial Statements
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Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the General Fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (1,110,581)
Net Adjustment for Revenue Accruals	1,438,165
Advance In	556,161
Advance Out	(48,391)
Net Adjustment for Expenditure Accruals	(1,154,333)
Adjustment for Encumbrances	<u>(152,209)</u>
Budget Basis	<u>\$ (471,188)</u>

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**Lake Local School District
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*Notes to the Basic Financial Statements
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(Continued)*

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

Cash on Hand: At year end, the School District had \$1,000 in undeposited cash on hand which is included on the financial statements of the School District as part of equity in pooled cash and cash equivalents.

Deposits: The carrying value of the School District's deposits totaled \$861,981 and the bank balances of the deposits totaled \$267,329. Of the bank balance \$100,000 of the bank balance was covered by depository insurance; and \$167,329 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	Fair Value	Investment Maturities (in months) 0 - 6
STAROhio	\$ 7,956,804	\$ 7,956,804

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Unless matched to a specific obligation or debt of the School District, the School District will not directly invest in securities maturing more than three years from the date of settlement if such securities bear interest at a fixed rate, and it will not directly invest in such securities maturing more than two years from the date of settlement if they bear interest at a variable rate.

Credit Risk: The School District's investments at June 30, 2005 in STAROhio is rated AAAM by Standard & Poor's.

Concentration of Credit Risk: The School District diversifies its investments by security, type, and institution. With the exception of direct obligations of the U. S. Treasury and STAROhio, no more that 25% of the School District's total investment portfolio will be invested in a single security type or with a single financial institution. The School District's only investment at June 30, 2005 is in STAROhio.

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Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 located in the School District. Property tax revenue received during calendar 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax revenue received during calendar 2005 for tangible personal property (other than public utility property) is for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2005, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005 and are collected in 2005 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value of inventory.

The property valuation consisted of:

Real Property	
Valuation Year - 2004	
Residential/Agricultural	\$ 310,501,240
Commercial/Industrial	41,905,360
Tangible Personal Property	
Valuation Year - 2005	
General	17,165,997
Public Utilities	<u>7,309,330</u>
Total Valuation	<u><u>\$ 376,881,927</u></u>

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

Tangible personal property taxes paid by multi-county taxpayers' are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 School District prior to June 30.

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The School District receives property taxes from Stark and Portage Counties. The County Auditors periodically advance to the School District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The late settlement and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2005, was \$789,680 and is recognized as revenue. \$657,050 was available to the general fund and \$132,630 was available to the debt service fund.

Note 8 - Receivables

Receivables at June 30, 2005, consisted of taxes, accounts (student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Intergovernmental receivables consisted of the following:

	<u>Intergovernmental Receivables</u>
Nonmajor governmental funds:	
Ohio Reads	\$ 8,724
Student Intervention	23,728
Access Grant	5,671
Title III	2,554
Title I	45,085
Title V	9,112
Drug Free	1,898
Miscellaneous Federal Grants	1,445
Food Service Enterprise Fund	<u>17,780</u>
	<u>\$ 115,997</u>

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*Notes to the Basic Financial Statements
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Note 9 - Capital Assets

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

	Balance 6/30/04	Additions	Reductions	Balance 6/30/05
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,993,257	\$ 0	\$ 0	\$ 2,993,257
Construction in Progress	18,029,778	1,268,816	(19,298,594)	0
	<u>21,023,035</u>	<u>1,268,816</u>	<u>(19,298,594)</u>	<u>2,993,257</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	19,263,716	19,298,594	0	38,562,310
Furniture and Equipment	5,057,109	249,509	(689,738)	4,616,880
Vehicles	2,068,546	169,596	(29,288)	2,208,854
Textbooks	772,811	0	0	772,811
Total Capital Assets, being depreciated	<u>27,162,182</u>	<u>19,717,699</u>	<u>(719,026)</u>	<u>46,160,855</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(4,891,760)	(614,699)	0	(5,506,459)
Furniture and Equipment	(2,965,317)	(320,022)	507,355	(2,777,984)
Vehicles	(951,467)	(191,799)	21,516	(1,121,750)
Textbooks	(754,516)	(18,295)	0	(772,811)
Total Accumulated Depreciation	<u>(9,563,060)</u>	<u>(1,144,815)</u>	<u>528,871</u>	<u>(10,179,004)</u>
Total Capital Assets being depreciated, net	<u>17,599,122</u>	<u>18,572,884</u>	<u>(190,155)</u>	<u>35,981,851</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,622,157</u>	<u>\$ 19,841,700</u>	<u>\$ (19,488,749)</u>	<u>\$ 38,975,108</u>
Business-Type Activities				
<i>Capital Assets being depreciated</i>				
Furniture and Equipment	\$ 312,798	\$ 5,164	\$ (50,621)	\$ 267,341
Less Accumulated Depreciation	(161,780)	(10,893)	23,188	(149,485)
Business-Type Activities Capital Assets, Net	<u>\$ 151,018</u>	<u>\$ (5,729)</u>	<u>\$ (27,433)</u>	<u>\$ 117,856</u>

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For the Fiscal Year Ended June 30, 2005
(Continued)*

Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
Instruction:	
Regular	\$ 661,531
Special	7,795
Vocational	3,893
Support Services:	
Pupil	9,439
Instructional Staff	31,439
Administration	26,343
Fiscal	679
Operation and Maintenance of Plant	156,221
Pupil Transportation	199,255
Central	127
Operation of Non-Instructional Services	7,465
Extracurricular Activities	40,628
Total Governmental Activities	\$ 1,144,815
 <i>Business-Type Activities:</i>	
Food Service	\$ 10,893

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the School District contracted with the following insurance companies:

Company	Type of Coverage	Coverage Amount
Indiana Insurance	Property Coverage	
	Blanket Building and Contents	\$ 70,055,022
	Inland Marine	Based on items listed
	Automobile Liability	1,000,000
	General Liability	
	Each occurrence	1,000,000
	Aggregate	2,000,000
	Umbrella	5,000,000

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

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

B. Workers' Compensation

The School District participates in the Stark County Schools Council of Government to obtain workers' compensation coverage. This program is administered by CompManagement, Inc. The experience of each of the participating school districts is calculated as one experience rate and applied to all participants in the program.

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 CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

The School District is a participant in the Stark County Schools Council of Government (COG) for the purpose of obtaining benefits at a reduced premium for health care. The program for health care is administered by Mutual Health Services Company and Aultcare. Payments are made to the COG for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal officer of the COG is the Treasurer of the Stark County Educational Service Center. The fiscal agent pays Medical Mutual Health Services and Aultcare monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges.

Note 11 - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 305 days. Upon retirement, employees receive payment for one-fourth of the total accumulated sick leave, up to a maximum accumulation of 49 days for those employees with ten or more years of service, and 64 days for those employees with twenty or more years of service to the Board of Education. Additionally, at retirement, \$10 is paid for each day of sick leave accumulated above 200 days, up to the maximum allowed.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate which is currently 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% 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 School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$518,433, \$461,566 and \$456,936; 45% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. \$267,696 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits and cost-of-living adjustments to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 members may retire after five years of service at age 60; 25 years of service at age 55; or 30 years of service regardless of age. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,574,025, \$1,585,247 and \$1,477,161 respectively; 82% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$9,145 made by the School District and \$23,303 made by the plan members.

C. Social Security System

Members of the Board of Education have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$111,064 during the 2005 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

Lake Local School District
Stark County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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 qualify.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$223,486.

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. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 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. SERS had approximately 62,000 participants currently receiving health care benefits.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 14 - Long - Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	(Restated) Outstanding 6/30/04	Additions	Reductions	Refunding	Outstanding 6/30/05	Amounts Due in One Year
Governmental Activities:						
General Obligation Bonds:						
2000 Improvement 5.80%	\$24,640,000	\$ 0	\$ 490,000	\$ 21,955,000	\$ 2,195,000	\$ 555,000
2000 Capital Appreciation Bonds	659,945	0	0	0	659,945	0
Accretion of Interest	1,155,445	16,319	0	0	1,171,764	0
2003 Real Estate Acquisition 3.79%	250,000	0	50,000	0	200,000	50,000
2005 Refunding of Bonds						
Serial Bonds \$21,000,000 at 3.00% - 5.00%	0	21,000,000	0	0	21,000,000	565,000
Capital Appreciation Bonds at 4.17% - 4.45%	0	954,950	0	0	954,950	0
Accretion of Interest	0	16,409	0	0	16,409	0
Total General Obligation Bonds	26,705,390	21,987,678	540,000	21,955,000	26,198,068	1,170,000
Compensated Absences	1,172,151	322,535	258,885	0	1,235,801	320,545
Capital Leases	272,361	0	77,779	0	194,582	82,988
Total Governmental Activities Long-Term Liabilities	\$28,149,902	\$22,310,213	\$ 876,664	\$ 21,955,000	\$27,628,451	\$ 1,573,533
Business-Type Activities						
Compensated Absences	\$ 9,037	\$ 9,055	\$ 0	\$ 0	\$ 18,092	\$ 0

In 2000, the School District issued \$26,389,945 in general obligation bonds for renovation, construction, and equipping school facilities and real estate for school purposes. The callable bonds were refunded in 2005 and the remaining bonds mature in December 2026.

In 2003, the School District issued \$250,000 in general obligation bonds for real estate acquisition. The bonds mature in December 2008.

2005 School Improvement Refunding Bonds

On April 20, 2005, the School District issued \$21,955,000 refunded general obligation bonds. The proceeds of the bonds were used to refund \$21,955,000 of the School District's outstanding Capital Improvement Bond Series 2000. The bonds were issued for a 19 year period with final maturity at December 1, 2026. At the date of the refunding, \$23,914,677 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2005, \$21,955,000 of these bonds are considered defeased.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

These refunding bonds were issued with a premium of \$2,267,276, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the bonds outstanding method. Amortization of \$58,374 was recorded for June 30, 2005. The issuance costs have been reported as an expenditure. These costs will be deferred and amortized over the life of the bonds within the government-wide financial statements. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$1,489,124. The issuance resulted in an economic gain of \$991,927.

The bond issue consists of serial and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds mature December 1, 2012, 2013 and 2014. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$3,450,000. For fiscal year 2005, \$16,409 was accreted for a liability of \$971,359.

General obligation bonds will be paid from the Debt Service Fund. Compensated absences will be paid from various governmental funds, and the Food Service Enterprise Fund. Capital lease obligations will be paid from the General Fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2006	\$ 1,170,000	\$ 1,101,182	\$ 0	\$ 0	\$ 1,170,000	\$ 1,101,182
2007	245,000	1,074,290	227,887	392,113	472,887	1,466,403
2008	250,000	1,066,469	226,298	488,702	476,298	1,555,171
2009	255,000	1,058,499	205,760	549,240	460,760	1,607,739
2010	1,010,000	1,029,255	0	0	1,010,000	1,029,255
2011 - 2015	2,170,000	4,657,715	954,950	2,495,050	3,124,950	7,152,765
2016 - 2020	6,355,000	3,810,875	0	0	6,355,000	3,810,875
2021 - 2025	8,105,000	2,011,875	0	0	8,105,000	2,011,875
2025 - 2029	3,835,000	194,125	0	0	3,835,000	194,125
Total	\$ 23,395,000	\$ 16,004,285	\$ 1,614,895	\$ 3,925,105	\$ 25,009,895	\$ 19,929,390

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 15 - Capitalized Leases

Capital lease obligations relate to equipment which is leased under a long-term agreement. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 "Accounting for Leases". Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Year	Amount
2006	\$ 93,192
2007	93,192
2008	23,298
Total Minimum Lease Payments	209,682
Less Amount Representing Interest	15,100
Present Value of Minimum Lease Payments	\$ 194,582

The assets being acquired have been capitalized in the governmental activities in the amount of \$683,940, which is the present value of the minimum lease payments at the inception of each lease.

Note 16 - Unearned/Deferred Revenue

Unearned/deferred revenue at June 30, 2005 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 9,730,653	\$ 9,981,263
Grants Receivable	0	24,983
Unearned/Deferred Revenue	\$ 9,730,653	\$ 10,006,246

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 17 - Interfund Transfers

Transfers for the year ended June 30, 2005 consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 77,090
Debt Service Fund	59,080	0
Nonmajor Governmental Funds	19,120	0
Nonmajor Enterprise Funds	596	1,706
	\$ 78,796	\$ 78,796

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 18 - Interfund Balances

Interfund balances at June 30, 2005 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 162,884	\$ 0
Nonmajor Governmental Funds	0	159,414
Nonmajor Enterprise Funds	0	3,470
	\$ 162,884	\$ 162,884

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005, all interfund payables outstanding are anticipated to be repaid by fiscal year 2006.

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

Note 19 - Jointly Governed Organization

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization comprised of 31 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports SPARCC based upon a per pupil charge dependent upon the software package utilized. The SPARCC assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. SPARCC is governed by a board of directors chosen from the general membership of the SPARCC assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county in which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Stark County Education Services Center, which serves as fiscal agent, located at 2100 38th Street, NW, Canton, Ohio 44709.

Note 20 - Contingencies

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

Note 21 - Set-Asides

Substitute House Bill 412, as amended, required the School District to “set aside” certain percentages of defined revenues for (1) textbook and instructional materials purchases, and (2) capital and maintenance expenditures. As of April 10, 2001, any money on hand in a School District’s budget reserve set-aside account may at the discretion of the Board be returned to the School District’s general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The amendment places special conditions on any refunds or rebates from the Bureau of Workers’ Compensation (BWC). These monies are to be used to offset a budget deficit for school facility construction, renovation or repair, for the textbooks or instructional materials; for purchase of school buses; or for teachers’ professional development. It also required five year budget projections, amended the fiscal watch and fiscal emergency statutes, created a school district solvency fund, and amended “spending reserve” provisions. During the fiscal year June 30, 2005, the reserve activity (cash basis) was as follows:

**Lake Local School District
Stark County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)*

	BWC Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2004	\$ 95,898	\$ 0	\$ 0	\$ 95,898
Set-Aside Carryover Balance as of June 30, 2004	0	0	(750,931)	(750,931)
Current Year Set-Aside Requirement	0	480,738	480,738	961,476
Qualifying Disbursements	0	(1,014,326)	(639,522)	(1,653,848)
Total	<u>\$ 95,898</u>	<u>\$ (533,588)</u>	<u>\$ (909,715)</u>	<u>\$ (1,347,405)</u>
Amount for Set-Asides	<u>\$ 95,898</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,898</u>
Balance Carried Forward to Fiscal Year 2006				<u>\$ 95,898</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. These extra amounts may only be used to reduce the set-aside requirement of future years for the purchase of textbooks and/or instructional materials.

Monies representing BWC refunds that were received prior to April 20, 2001, have been shown as a restricted cash/reserved fund balance in the general fund. The non-BWC portion of the budget stabilization has been returned to the general fund.

Note 22 - 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 23 – Subsequent Event

On February 7, 2006, voters approved an 11.1 mill continuous operating levy which will generate roughly \$4.2 million annually.

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LAKE LOCAL SCHOOL DISTRICT
STARK COUNTY

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$ 41,677		\$ 41,677
National School Lunch Program	N/A	10.555	\$ 143,509		\$ 143,509	
Total Nutrition Cluster / U.S. Department of Agriculture			143,509	41,677	143,509	41,677
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States		84.027	13,079		11,204	
		049866-6BSD-2005	633,450		624,817	
		049866-6BSD-2004-P	14,870		21,775	
		049866-6BSF-2004	19,106		44,350	
Total Special Education Cluster			680,505		702,146	
Title III, English Language Acquisition Grants		84.365	10,374		10,456	
		049866-T3S1-2004	10,691		11,073	
Total Title III, English Language Acquisition Grants			21,065		21,529	
Title I, Grants to Local Educational Agencies		84.010	176,955		173,089	
		049866-C1S1-2004	28,446		38,980	
Total Title I, Grants to Local Educational Agencies			205,401		212,069	
Title V, Innovative Educational Program Strategies		84.298	11,396		18,572	
		049866-C2S1-2004	2,210		1,735	
Total Title V, Innovative Educational Program Strategies			13,606		20,307	
Title IV-A, Drug Free Schools Grant		84.186	11,666		7,698	
		049866-DRS1-2004	2,633		1,573	
Total Title IV-A, Drug Free Schools Grant			14,299		9,271	
Title II-A, Improving Teacher Quality State Grants		84.367	81,528		85,077	
		049866-TRS1-2004	11,494		14,542	
Total Title II-A, Improving Teacher Quality State Grants			93,022		99,619	
Title II-D, Education Technology State Grants		84.318	4,884		6,947	
		049866-TJS1-2004	1,695		5,400	
Total Title II-D, Education Technology State Grants			6,579		12,347	
<i>Passed Through Plain Local School District - Fiscal Agent of Compact:</i>						
Vocational Education Basic Grants to States		84.048	30,577		30,347	
Total U.S. Department of Education			1,065,054		1,107,635	
Totals			\$ 1,208,563	\$ 41,677	\$ 1,251,144	\$ 41,677

The accompanying notes to this schedule are an integral part of this schedule.

**LAKE LOCAL SCHOOL DISTRICT
STARK COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Lake Local School District
Stark County
11936 King Church Avenue
Uniontown, Ohio 44685

To the Board of Education:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lake Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 3, 2006 wherein we noted the beginning net assets of the Governmental Activities was restated to correct an error in the recognition of capital appreciation bond accreted interest. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

However, in a separate letter to the District's management dated February 3, 2006, we reported other matters related to internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001.

In addition, in a separate letter to the District's management dated February 3, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Lake Local School District
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Governmental Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 3, 2006



**Auditor of State
Betty Montgomery**

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

Lake Local School District
Stark County
11936 King Church Avenue
Uniontown, Ohio 44685

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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Lake Local School District
Stark County
Independent Accountants' Report on Compliance with Requirements
Applicable to its Major Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

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

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

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

Betty Montgomery
Auditor of State

February 3, 2006

**LAKE LOCAL SCHOOL DISTRICT
STARK COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Rev. Code Section 5705.41 (B) requires that no subdivision or taxing unit make any expenditure of money unless it has been appropriated. The following District accounts had expenditures plus encumbrances in excess of appropriations:

<u>Fund/Function/Object</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Debt Service Fund/ Debt Service/ Bond Issuance Costs	\$0	\$ 307,547	(\$307,547)
Debt Service Fund/ Debt Service/ Other Financing Uses	0	23,913,237	(23,913,237)

This variance is the result of the District refunding the 2000 General Obligation School Improvement Bonds. The District issued new bonds and the proceeds were used to refund the original bond issue.

In the future, the District should obtain an amended Certificate of Estimated Resources for all new sources of revenue which includes on-behalf activity. The District should also amend its appropriations accordingly. This will help eliminate the appearance of potential overspending situations.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**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

**LAKE LOCAL SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 16, 2006**