



**Auditor of State
Betty Montgomery**

**SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Southington Local School District
Trumbull County
4432 State Route 305 NW
Southington, Ohio 44470

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Southington Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Southington Local School District, Trumbull County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 29, 2004

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**Southington Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003**

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals
	Special	Debt	Capital	Enterprise	Trust and Agency	General	General	2003	
	General	Revenue	Service			Project	Fixed Assets	Long Term Debt	(Memorandum)
								(Only)	
Assets and Other Debits:									
Equity in Pooled Cash and Cash Equivalents	\$26,610	\$114,268	\$0	\$131,839	\$48,898	\$83,227	\$0	\$0	\$404,842
Restricted Assets	143,781	0	0	0	0	0	0	0	143,781
Taxes Receivable	1,062,209	429,579	884	60,127	0	0	0	0	1,552,799
Inter-fund Receivable	20,000	0	0	0	0	0	0	0	20,000
Due from Other Funds	0	0	0	0	0	63,785	0	0	63,785
Intergovernmental Receivable	0	2,860	0	0	0	0	0	0	2,860
Accounts Receivable	2,000	0	0	0	0	174	0	0	2,174
Supplies Inventory	135	0	0	0	507	0	0	0	642
Inventory for Resale	0	0	0	0	2,853	0	0	0	2,853
Property, Plant & Equipment	0	0	0	0	35,504	0	2,779,544	0	2,815,048
Accumulated Depreciation, where applicable	0	0	0	0	(21,671)	0	0	0	(21,671)
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	0	0	495,315	495,315
Total Assets and Other Debits	\$1,254,735	\$546,707	\$884	\$191,966	\$66,091	\$147,186	\$2,779,544	\$495,315	\$5,482,428

(Continued)

Southington Local School District
Combined Balance Sheet
All Fund Types and Account Groups, Continued
June 30, 2003

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals
	Special	Debt	Capital	Fund Types	Fund Types	General	General	2003	
	General	Revenue	Service	Project	Enterprise	Trust and Agency	Fixed Assets	Long Term Debt	(Memorandum (Only))
Liabilities:									
Inter-fund Payable	\$0	\$0	\$0	\$20,000	\$0	\$0	\$0	\$0	\$20,000
Due to Other Funds	59,695	14	0	0	4,076	0	0	0	63,785
Intergovernmental Payable	1,947	0	0	0	54	97,024	0	35,800	134,825
Accounts Payable	9,520	3,268	0	7,600	100	0	0	0	20,488
Accrued Salaries and Benefits	332,840	1,016	0	0	9,419	0	0	0	343,275
Deferred Revenue	1,093,479	442,308	907	61,905	0	0	0	0	1,598,599
Due to Others	0	0	0	0	0	18,232	0	0	18,232
Asbestos Loan Payable	0	0	0	0	0	0	0	845	845
Compensated Absences Payable	8,665	0	0	0	4,274	0	0	458,670	471,609
Total Liabilities	1,506,146	446,606	907	89,505	17,923	115,256	0	495,315	2,671,658
Fund Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	2,779,544	0	2,779,544
Contributed Capital	0	0	0	0	15,884	0	0	0	15,884
Retained Earnings	0	0	0	0	32,284	0	0	0	32,284
Retained Earnings-Reserved	0	0	0	0	0	23,039	0	0	23,039
Fund Balances:									
Reserved For Inventory	135	0	0	0	0	0	0	0	135
Reserved For Budget Stabilization	19,406	0	0	0	0	0	0	0	19,406
Reserved For Textbook Expenditures	59,053	0	0	0	0	0	0	0	59,053
Reserved for Capital Maintenance	42,541	0	0	0	0	0	0	0	42,541
Reserved for School Bus Purchase	22,781	0	0	0	0	0	0	0	22,781
Reserved for Encumbrances	13,522	17,768	0	1,828	0	0	0	0	33,118
Reserved for Future Appropriation	31,269	12,729	23	1,777	0	0	0	0	45,798
Unreserved Fund Balance	(440,118)	69,604	(46)	98,856	0	8,891	0	0	(2)
Total Fund Equity	(251,411)	100,101	(23)	102,461	0	8,891	0	0	(39,981)
Total Fund Balances/Retained Earnings and Other Credits	(251,411)	100,101	(23)	102,461	48,168	31,930	2,779,544	0	2,810,770
Total Liabilities, Fund Equity, and Other Credits	\$1,254,735	\$546,707	\$884	\$191,966	\$66,091	\$147,186	\$2,779,544	\$495,315	\$5,482,428

See Accompanying Notes to the General Purpose Financial Statements

Southington Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types and Similar Fiduciary Fund Type
Year Ended June 30, 2003

	General	Governmental Special Revenue	Fund Types Debt Service	Capital Project	Fiduciary Fund Types Expendable Trust	Totals (Memorandum) (Only)
REVENUES:						
Taxes	\$986,125	\$414,392	\$4,993	\$57,977	\$0	\$1,463,487
Transportation Fees	14,341	0	0	0	0	14,341
Earnings on Investments	3,599	0	0	0	0	3,599
Extracurricular Activities	0	97,921	0	0	0	97,921
Classroom Materials & Fees	988	0	0	0	0	988
Miscellaneous	59,316	20,704	0	0	8,579	88,599
Revenue from State Sources						
Unrestricted Grants-in-Aid	2,690,017	82,852	0	7,293	0	2,780,162
Restricted Grants-in-Aid	125,580	23,500	0	88,514	0	237,594
Revenue from Federal Sources						
Restricted Grants-in-Aid	0	171,846	0	0	0	171,846
Total Revenue	3,879,966	811,215	4,993	153,784	8,579	4,858,537
EXPENDITURES:						
Current:						
Instruction						
Regular	1,843,728	300,644	0	16,720	0	2,161,092
Special	216,704	83,668	0	21,898	0	322,270
Other Instruction	9,559	0	0	0	0	9,559
Supporting Services						
Pupils	367,184	0	0	0	0	367,184
Instructional Staff	56,580	0	0	0	0	56,580
Board of Education	77,698	0	0	0	0	77,698
Administration	314,452	5,310	0	0	0	319,762
Fiscal Services	172,981	9,895	0	1,041	251	184,168
Business	17,484	0	0	0	0	17,484
Operation & Maintenance-Plant	282,575	105,562	0	40,388	0	428,525
Pupil Transportation	262,717	68,974	0	0	0	331,691
Central	12	5,000	0	0	0	5,012
Food Service	4,936	0	0	0	0	4,936
Community Services	0	532	0	0	7,906	8,438
Extracurricular Activities						
Academic & Subject Oriented	7,938	232	0	0	0	8,170
Sports Oriented	78,284	94,923	0	0	0	173,207
Co-Curricular Activities	513	29,351	0	0	0	29,864
Debt Service						
Repayment of Debt	0	0	5,000	0	0	5,000
Total Expenditures	3,713,345	704,091	5,000	80,047	8,157	4,510,640
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	166,621	107,124	(7)	73,737	422	347,897
Other Financing Sources and Uses:						
Sale & Loss of Assets	1,953	0	0	0	0	1,953
Transfers-In	0	36,526	0	0	0	36,526
Transfer-Out	(36,526)	0	0	0	0	(36,526)
Total Other Financing Sources and Uses	(34,573)	36,526	0	0	0	1,953
Excess (Deficiency) of Revenues and Other Sources Over Expenditure						
Disbursement and Other Uses	132,048	143,650	(7)	73,737	422	349,850
Beginning Fund Balance	(383,459)	(43,549)	(16)	28,724	1,902	(396,398)
Ending Fund Balance	\$(251,411)	\$100,101	\$(23)	\$102,461	\$2,324	\$(46,548)

See Accompanying Notes to the General Purpose Financial Statements

Southington Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Similar Fiduciary Fund Type
Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$1,013,824	\$1,013,824	\$0	\$425,662	\$425,662	\$0
Transportation Fees	14,341	14,341	0	0	0	0
Earnings on Investment	3,599	3,599	0	0	0	0
Extracurricular Activities	0	0	0	98,070	98,070	0
Classroom Materials and Fees	988	988	0	0	0	0
Miscellaneous	7,494	7,494	0	20,720	20,720	0
State Unrestricted Grants-in-Aid	2,690,017	2,690,017	0	82,852	82,852	0
State Restricted Grants-in-Aid	127,380	127,380	0	23,500	23,500	0
Federal Restricted Grants-in-Aid	0	0	0	178,105	178,105	0
Total Revenue	3,857,643	3,857,643	0	828,909	828,909	0
Expenditures:						
Regular Instruction	1,970,070	1,854,255	115,815	317,125	302,990	14,135
Special Instruction	227,182	226,891	291	124,181	106,249	17,932
Other Instruction	9,559	9,559	0	0	0	0
Support Services-Pupils	366,916	366,892	24	0	0	0
Support Services-Instructional Staff	57,774	56,567	1,207	0	0	0
Support Services-Board of Education	77,785	77,677	108	0	0	0
Support Services-Administration	319,850	319,572	278	5,310	5,310	0
Fiscal Services	169,021	169,021	0	9,907	9,895	12
Support Services-Business	17,633	17,484	149	0	0	0
Operation & Maintenance-Plant	327,302	284,605	42,697	114,484	105,364	9,120
Support Services-Transportation	268,774	267,820	954	70,645	70,645	0
Support Services-Central	0	0	0	5,000	5,000	0
Food Services Operations	36,873	14,000	22,873	0	0	0
Community Services	0	0	0	532	532	0
Academic & Subject Oriented	8,067	7,867	200	454	232	222
Sports Oriented	78,909	78,503	406	102,216	96,068	6,148
Co-Curricular Activities	513	513	0	44,473	29,551	14,922
Repayment of Debt	0	0	0	0	0	0
Total Expenditures	3,936,228	3,751,226	185,002	794,327	731,836	62,491
Excess of Revenue Over (Under) Expenditures	(78,585)	106,417	185,002	34,582	97,073	62,491
Other Financing Sources (Uses):						
Sale and Loss of Assets	1,953	1,953	0	0	0	0
Advances-In	0	0	0	0	0	0
Transfers-In	0	0	0	36,526	36,526	0
Refund of Prior Year Expenditures	57,509	57,509	0	0	0	0
Advances-Out	0	(20,000)	(20,000)	0	0	0
Transfers-Out	0	(36,526)	(36,526)	0	0	0
Total Other Sources (Uses)	59,462	2,936	(56,526)	36,526	36,526	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses						
Beginning Fund Balance	(19,123)	109,353	128,476	71,108	133,599	62,491
Prior Year Carry Over Encumbrances	38,541	38,541	--	(44,113)	(44,113)	--
	0	0	--	4,327	4,327	--
Ending Fund Balance	\$19,418	\$147,894	\$128,476	\$31,322	\$93,813	\$62,491

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Southington Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Similar Fiduciary Fund Type - Continued
Year Ended June 30, 2003

	Debt Service Funds			Capital Project Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$5,000	\$5,000	\$0	\$59,551	\$59,551	\$0
Transportation Fees	0	0	0	0	0	0
Earnings on Investment	0	0	0	0	0	0
Extracurricular Activities	0	0	0	0	0	0
Classroom Materials and Fees	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	0	0	0	7,293	7,293	0
State Restricted Grants-in-Aid	0	0	0	88,514	88,514	0
Federal Restricted Grants-in-Aid	0	0	0	0	0	0
Total Revenue	5,000	5,000	0	155,358	155,358	0
Expenditures:						
Regular Instruction	0	0	0	16,720	16,720	0
Special Instruction	0	0	0	20,000	20,000	0
Other Instruction	0	0	0	0	0	0
Support Services-Pupils	0	0	0	0	0	0
Support Services-Instructional Staff	0	0	0	0	0	0
Support Services-Board of Education	0	0	0	0	0	0
Support Services-Administration	0	0	0	0	0	0
Fiscal Services	0	0	0	6,053	1,041	5,012
Support Services-Business	0	0	0	0	0	0
Operation & Maintenance-Plant	0	0	0	73,000	40,388	32,612
Support Services-Transportation	0	0	0	0	0	0
Support Services-Central	0	0	0	0	0	0
Food Services Operations	0	0	0	0	0	0
Community Services	0	0	0	0	0	0
Academic & Subject Oriented	0	0	0	0	0	0
Sports Oriented	0	0	0	0	0	0
Co-Curricular Activities	0	0	0	0	0	0
Repayment of Debt	5,000	5,000	0	0	0	0
Total Expenditures	5,000	5,000	0	115,773	78,149	37,624
Excess of Revenue Over (Under) Expenditures	0	0	0	39,585	77,209	37,624
Other Financing Sources (Uses):						
Sale and Loss of Assets	0	0	0	0	0	0
Advances-In	0	0	0	20,000	20,000	0
Transfers-In	0	0	0	0	0	0
Refund of Prior Year Expenditures	0	0	0	0	0	0
Advances-Out	0	0	0	0	0	0
Transfers-Out	0	0	0	0	0	0
Total Other Sources (Uses)	0	0	0	20,000	20,000	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	0	0	59,585	97,209	37,624
Beginning Fund Balance	0	0	--	28,927	28,927	--
Prior Year Carry Over Encumbrances	0	0	--	0	0	--
Ending Fund Balance	\$0	\$0	\$0	\$88,512	\$126,136	\$37,624

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Southington Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)

All Governmental Fund Types and Similar Fiduciary Fund Type- Continued
Year Ended June 30, 2003

	Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$0	\$0	\$0	\$1,504,037	\$1,504,037	\$0
Transportation Fees	0	0	0	14,341	14,341	0
Earnings on Investment	0	0	0	3,599	3,599	0
Extracurricular Activities	0	0	0	98,070	98,070	0
Classroom Materials and Fees	0	0	0	988	988	0
Miscellaneous	8,579	8,579	0	36,793	36,793	0
State Unrestricted Grants-in-Aid	0	0	0	2,780,162	2,780,162	0
State Restricted Grants-in-Aid	0	0	0	239,394	239,394	0
Federal Restricted Grants-in-Aid	0	0	0	178,105	178,105	0
Total Revenue	8,579	8,579	0	4,855,489	4,855,489	0
Expenditures:						
Regular Instruction	0	0	0	2,303,915	2,173,965	129,950
Special Instruction	0	0	0	371,363	353,140	18,223
Other Instruction	0	0	0	9,559	9,559	0
Support Services-Pupils	0	0	0	366,916	366,892	24
Support Services-Instructional Staff	0	0	0	57,774	56,567	1,207
Support Services-Board of Education	0	0	0	77,785	77,677	108
Support Services-Administration	0	0	0	325,160	324,882	278
Fiscal Services	918	250	668	185,899	180,207	5,692
Support Services-Business	0	0	0	17,633	17,484	149
Operation & Maintenance-Plant	0	0	0	514,786	430,357	84,429
Support Services-Transportation	0	0	0	339,419	338,465	954
Support Services-Central	0	0	0	5,000	5,000	0
Food Services Operations	0	0	0	36,873	14,000	22,873
Community Services	9,564	7,905	1,659	10,096	8,437	1,659
Academic & Subject Oriented	0	0	0	8,521	8,099	422
Sports Oriented	0	0	0	181,125	174,571	6,554
Co-Curricular Activities	0	0	0	44,986	30,064	14,922
Repayment of Debt	0	0	0	5,000	5,000	0
Total Expenditures	10,482	8,155	2,327	4,861,810	4,574,366	287,444
Excess of Revenue Over (Under) Expenditures	(1,903)	424	2,327	(6,321)	281,123	287,444
Other Financing Sources (Uses):						
Sale and Loss of Assets	0	0	0	1,953	1,953	0
Advance-In	0	0	0	20,000	20,000	0
Transfer-In	0	0	0	36,526	36,526	0
Refund of Prior Year Expenditures	0	0	0	57,509	57,509	0
Advances-Out	0	0	0	0	(20,000)	(20,000)
Transfers-Out	0	0	0	0	(36,526)	(36,526)
Total Other Sources (Uses)	0	0	0	115,988	59,462	(56,526)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses						
Beginning Fund Balance	1,902	1,902	--	25,257	25,257	--
Prior Year Carry Over Encumbrances	0	0	--	4,327	4,327	--
Ending Fund Balance	\$(1)	\$2,326	\$2,327	\$139,251	\$370,169	\$230,918

See Accompanying Notes to the General Purpose Financial Statements

Southington Local School District
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types and Non-Expendable Trust Funds
Year Ended June 30, 2003

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum (Only))
	Enterprise Funds	Non- Expendable Trust Funds	
Operating Revenues:			
Food Service	\$111,542	\$0	\$111,542
Classroom Materials & Fees	13,907	0	13,907
Total Operating Revenue	125,449	0	125,449
Operating Expenses:			
Personal Services - Salary	56,217	0	56,217
Employee Benefits	42,706	0	42,706
Purchased Services	7,519	0	7,519
Supplies and Materials	94,685	0	94,685
Other Expenses	0	2,422	2,422
Depreciation	1,245	0	1,245
Total Operating Expenses	202,372	2,422	204,794
Operating Income (Loss)	(76,923)	(2,422)	(79,345)
Non-Operating Revenues:			
Miscellaneous	0	2,239	2,239
Earnings on Investment	702	1,550	2,252
State Unrestricted Grants-In-Aid	789	0	789
Federal Unrestricted Grants-In-Aid	26,596	0	26,596
Federal Restricted Grants-In-Aid	7,534	0	7,534
Total Non-Operating Revenues	35,621	3,789	39,410
Net Income (Loss)	(41,302)	1,367	(39,935)
Beginning Retained Earnings, as restated	73,586	28,239	101,825
Retained Earnings at End of Year	\$32,284	\$29,606	\$61,890

See Accompanying Notes to the General Purpose Financial Statements

Southington Local School District
Combined Statement of Cash Flow
All Proprietary Fund Types and Non-Expendable Trust Funds
Year Ended June 30, 2003

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum) (Only)
	Enterprise Funds	Non- Expendable Trust Funds	
Cash Flows from Operating Activities			
Operating Income (Loss)	\$(76,923)	\$(2,422)	\$(79,345)
Adjustment to Reconcile Operating Loss To Net Cash used in Operating Activities:			
Depreciation	1,245	0	1,245
Net (Increase) Decrease in Assets:			
Inventory	(1,411)	0	(1,411)
Net Increases (Decreases) in Liabilities:			
Intergovernmental Payable	54	0	54
Accounts Payable	100	0	100
Accrued Wages and Benefits	9,419	0	9,419
Compensated Absences	4,274	0	4,274
Due to Other Funds	(468)	0	(468)
Total Adjustments	13,213	0	13,213
Net Cash Used in Operating Activities	(63,710)	(2,422)	(66,132)
Cash Flows from Noncapital Activities:			
Earnings on Investments	702	1,550	2,252
Grants from State Sources	789	0	789
Grants from Federal Sources	26,596	0	26,596
Federal Commodities	7,534	0	7,534
Miscellaneous	0	2,239	2,239
Net Cash Provided by Noncapital Financing Sources	35,621	3,789	39,410
Net Increase in Cash & Cash Equivalents	(28,089)	1,367	(26,722)
Cash and Cash Equivalents at Beginning of Year	76,987	28,239	105,226
Cash and Cash Equivalents at End of Year	\$48,898	\$29,606	\$78,504

See Accompanying Notes to the General Purpose Financial Statements

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southington Local School District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local District as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002, was 677. The District employed 41 certified employees and 23 non-certificated employees. The District is supervised by the Trumbull County Educational Service Center, a separate entity.

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

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the district is financially accountable. This report includes all activities considered by management to be part of the District by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the District over which the District is financially accountable.

B. Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by proprietary and trust funds).

Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Funds - These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Expendable Trust Fund - This fund accounts for resources, including both principal and earnings, which must be expended according to the provision of the trust agreement. An expendable trust fund is accounted for in essentially the same manner as governmental funds.

Nonexpendable Trust Funds - These funds account for trust principal which may not be expended. Only interest earned on the principal may be used for trust operations. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds.

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the District's fixed assets other than those accounted for in the Proprietary funds.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

General Long-Term Debt Account Group - This account group is used to account for all of the District's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e. expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, but which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as advances on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2003 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting (Continued)

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred, with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities 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. Unused donated commodities at fiscal year-end are reported as non-operating revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budget and Budgetary Accounting

All governmental and proprietary fund types are subject to annual expenditure budgets. The Board follows the procedures outlined below in establishing the expenditure budget data reported in the general purpose financial statements:

- 1) A Tax Budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20th of each year, for the fiscal year commencing the following July 1st. The Board of Education normally adopts the Tax Budget at a board meeting in January.
- 2) The County Budget Commission certifies its actions to the District by March 1st. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. During the month of July, this certificate is amended to include any unencumbered balances from the preceding fiscal year.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget and Budgetary Accounting (Continued)

- 3) An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated. The Board of Education usually adopts temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund.
- 4) The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budget basis of accounting and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when payments are made (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budget basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2002, investments were limited to a money market account which is reported at cost. All investment earnings accrue to the General Fund, Food Service Fund and Trust Funds. Interest income earned in fiscal year 2003 totaled \$5,851.

G. Inventories

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. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and general supplies, and are expended when used.

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Fixed assets below a threshold of \$2,000 are not capitalized.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight-line method over an estimated useful life of the assets of eight to twenty years.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Inter-fund Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds. Short-term inter-fund loans are classified as "inter-fund receivables/payables. At June 30, 2003, the District had \$63,785 in Due to/from Other Funds and \$ 20,000 in Inter-fund Receivables/Payables.

J. Advances to Other Funds

Non-current portions of long-term inter-fund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2003, the District had no long-term inter-fund loans.

K. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the District records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. In proprietary funds, compensated absences are expensed when earned with the amount reported as a fund liability.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expended and closed to unreserved retained earnings at year end. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. At June 30, 2003, the District had \$15,884 in contributed capital.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

N. Inter-fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve, and a textbook reserve. The textbook reserve is required by State statute. Fund balance reserves have also been established.

P. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for supplies inventory, budget stabilization, textbook expenditures, encumbrances, and future appropriation. The reserve for future appropriation represents the amount of the property taxes available for advance and recognized as revenue. The District is prohibited by law from appropriating the advance, since it was not received, for the current fiscal year. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. 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.

R. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

2. BUDGETARY BASIS OF ACCOUNTING

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types and Similar Fiduciary Fund Type				
	Governmental Fund Types				
	General Fund	Special Revenue	Debt Service	Capital Project	Expendable Trust Funds
GAAP Basis	\$132,048	\$143,650	\$(7)	\$73,737	\$422
Increase (Decrease):					
Due to Revenues:					
Net Adjustments to Revenue Accruals	29,498	17,694	7	1,574	0
Due to Expenditures:					
Net Adjustments to Expenditure Accruals	(37,881)	(27,745)	0	1,898	2
Due to Other Sources/Uses	(14,312)	0	0	20,000	0
Budget Basis	<u>\$109,353</u>	<u>\$133,599</u>	<u>\$0</u>	<u>\$97,209</u>	<u>\$424</u>

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

3. ACCOUNTABILITY AND COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

A. Deficit Fund Balances

Fund balances at June 30, 2003, included the following individual deficits:

General Fund	\$ (251,411)
Emergency Levy Fund	\$ (12,926)
Debt Service Fund	\$ (23)

The fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficits and provides operating transfers when cash is required, not when accruals occur.

4. CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

SOUTHINGTON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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4. CASH AND CASH EQUIVALENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits: At year end, the carrying amount of the District's deposits was 548,623 and the bank balance was \$643,985. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$543,985 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

SOUTHINGTON LOCAL SCHOOL DISTRICT
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JUNE 30, 2003

5. PROPERTY TAX

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Trumbull County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was completed in 2002; an update is scheduled for 2005. The next revaluation is scheduled for 2008. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due February 14, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually, the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Trumbull County Treasurer collects property tax on behalf of the District and the Trumbull County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2003, for operations was \$51.45 per \$1,000 of assessed valuation and \$2.00 per \$1,000 of assessed valuation for permanent improvements. The assessed values of real and tangible personal property on which the fiscal year 2003 taxes were collected were as follows:

Real Property-Commercial/Industrial	\$1,553,250
Real Property-Residential/Agricultural	49,331,060
Personal Property-General	1,205,688
Personal Property-Public Utilities	1,914,170
Total Assessed Value	\$54,004,168

SOUTHINGTON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

6. RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (miscellaneous), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

Special Revenue Funds:	
Title V Grant Fund	\$2,860
Total	\$2,860

7. FIXED ASSETS

In prior years, the District has capitalized its fixed assets with a cost of less than \$2,000, which is not consistent with the District's revised capitalization policy. Therefore adjustments were made to the fixed assets during the 2003 fiscal year. The effect of these adjustments for the year ended June 30, 2002, is as follows:

Governmental Funds:

	Adjustment for Capitalization Level to \$2,000		
	General Fixed Assets		General Fixed Assets
	June 30, 2002	Adjustment	June 30, 2002
Land and Improvements	\$22,380	0	\$22,380
Buildings	1,157,871	0	1,157,871
Improvements	23,949	0	23,949
Furniture and Equipment	1,499,158	(399,754)	1,099,404
Vehicles	502,398	0	502,398
Total General Fixed Assets	\$3,205,756	(399,754)	\$2,806,002

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

7. FIXED ASSETS (Continued)

Enterprise Funds:

Property, Plant and Equipment, as previously reported	\$56,913
Adjustment for Fixed Assets with a cost of less than \$2,000	<u>(21,409)</u>
Restated Property, Plant and Equipment at June 30, 2002	<u><u>\$35,504</u></u>
Accumulated Depreciation, as previously reported	\$41,803
Adjustment for Fixed Assets with a cost of less than \$2,000	<u>(21,377)</u>
Restated Accumulated Depreciation at June 30, 2002	<u><u>\$20,426</u></u>
Retained Earnings, as previously reported	\$73,618
Adjustments for Fixed Assets with a cost of less than \$2,000	<u>(32)</u>
Restated Retained Earnings at June 30, 2002	<u><u>\$73,586</u></u>

The following is a summary of the proprietary funds property, plant and equipment at June 30, 2003:

Furniture and Equipment	\$35,504
Less Accumulated Depreciation	<u>(21,671)</u>
Net Fixed Assets	<u><u>\$13,833</u></u>

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2003:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Land and Improvements	\$22,380	0	0	\$22,380
Buildings	1,157,871	671	0	1,158,542
Improvements	23,949	0	0	23,949
Furniture and Equipment	1,099,404	12,491	52,278	1,059,617
Vehicles	502,398	14,000	0	516,398
Total General Fixed Assets	<u>\$2,806,002</u>	<u>26,491</u>	<u>452,949</u>	<u>\$2,779,544</u>

There was no significant construction in progress at June 30, 2003.

**SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$83,112, \$75,360 and \$74,064; 44.26 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$52,329 representing the unpaid contribution for fiscal year 2003, including the surcharge, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. 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, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$264,312, \$280,776 and \$272,712, respectively; 83.33 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$44,054 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

9. POSTEMPLOYMENT BENEFITS

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

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 cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$18,879 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, the balance in the Fund was \$3.011 billion (the latest information available). For the year ended June 30, 2003, net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

9. POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$45,383.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants receiving health care benefits.

10. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from the negotiated agreements and State laws. Only personnel who are under a full year contract (260 days) are eligible for vacation time. The Superintendent is granted twenty days of vacation per year.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Employees may accrue a maximum of thirty (30) days for carry-over to successive years. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-6	10
7-14	15
15-beyond	20

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for classified employees and for certified employees is 305 days.

Retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement if the employee has been employed by the District for a minimum of five years and has ten years of service with the State Retirement System at the time of retirement.

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

10. COMPENSATED ABSENCES (Continued)

Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to seventy-six and one-fourth days. The Superintendent is entitled to severance on all accumulated and unused sick leave without limit per contract.

11. RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. The District also maintains \$100,000 employee benefit liability coverage.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$9,493,257.

B. Workers Compensation-Public Entity Risk Pool

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA).

The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is

SOUTHINGTON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

11. RISK MANAGEMENT (Continued)

C. Shared Risk Pool

The District participates in the Trumbull County Insurance Consortium. This is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district. The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

12. NOTES AND LONG-TERM DEBT

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance
	July 1, 2002	Additions	Deletions	June 30,2003
Intergovernmental Payable	\$32,725	\$35,800	\$32,725	\$35,800
Asbestos Loan Payable	5,845	0	5,000	845
Compensated Absences Payable	504,923	458,670	504,923	458,670
	<u>\$543,493</u>	<u>\$494,470</u>	<u>\$542,648</u>	<u>\$495,315</u>

Operating Leases:

The District entered into an operating lease contract for three copiers at a base rate of \$1,205.10 per month. The contract length is 72 months, effective April, 2000.

Asbestos Loan Payable:

The District received an interest free grant and loan for asbestos assistance with the United States Environmental Protection Agency. Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a grant of \$16,979 and a loan of \$68,345 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$2,500 every six months, with the first payment made in 1988 and the final amount due in 2004.

The repayment schedule for the Asbestos Loan as of June 30, 2002, is as follows:

	Payment
FY2004	<u>\$845</u>
	<u>\$845</u>

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

12. NOTES AND LONG-TERM DEBT (Continued)

Debt Limitation:

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt, the District's unvoted debt margin is \$54,004. The voted debt margin at June 30, 2003 is \$4,860,375.

13. SEGMENTS OF ENTERPRISE ACTIVITIES

Key financial data for the District's Enterprise Funds for the year ended June 30, 2003, are as follows:

	Lunchroom Fund	Uniform School Supply Fund	Total
Operating Revenues	\$111,542	13,907	\$125,449
Operating Expenses:			
Depreciation	(1,245)	0	(1,245)
Other Expenses	(186,974)	(14,153)	(201,127)
Total Operating Expenses	<u>(188,219)</u>	<u>(14,153)</u>	<u>(202,372)</u>
Operating Gain (Loss)	(76,677)	(246)	(76,923)
Non Operating Revenues and Expenses:			
Grants	34,919	0	34,919
Earnings on Investments	702	0	702
Net Income (Loss)	<u>\$(41,056)</u>	<u>(246)</u>	<u>\$(41,302)</u>
Net Working Capital	<u>\$31,160</u>	<u>3,175</u>	<u>\$34,335</u>
Contributed Capital	<u>\$15,884</u>	<u>0</u>	<u>\$15,884</u>
Total Assets	<u>\$62,916</u>	<u>3,175</u>	<u>\$66,091</u>
Total Retained Earnings	<u>\$29,109</u>	<u>3,175</u>	<u>\$32,284</u>

SOUTHINGTON LOCAL SCHOOL DISTRICT
 TRUMBULL COUNTY
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2003

14. INTER-FUND TRANSACTIONS

At June 30, 2003 the District had receivables and payables resulting from goods provided or services rendered. These are classified as "due from/to other funds." An analysis of those transactions follows:

	Due From	Due To
General Fund	\$0	\$59,695
Special Revenue Funds	0	14
Enterprise Funds	0	4,076
Agency Funds	63,785	0
	<u>\$63,785</u>	<u>\$63,785</u>

At June 30, 2003, the District had the following short-term inter-fund loans classified as "inter-fund receivables/payables":

	Receivable	Payable
General Fund	\$20,000	\$0
Capital Project Funds	0	20,000
	<u>\$20,000</u>	<u>\$20,000</u>

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

14. INTER-FUND TRANSACTIONS (Continued)

Inter-fund transfers for the year ended June 30, 2003 consisted of the following:

	Transfer-in	Transfer-out
General Fund	\$0	\$36,526
Special Revenue Funds	36,526	0
	\$36,526	\$36,526

15. JOINTLY GOVERNED ORGANIZATIONS

NORTH EAST OHIO MANAGEMENT INFORMATION NETWORK (NEOMIN) is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based upon a per pupil charge. The District contributed \$10,230 to NEOMIN for fiscal year 2003.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers.

The District was not represented on the Governing Board during fiscal year 2003. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

North East Ohio Special Education Regional Resource Center (NEOSERRC) - NEOSERRC provides special education services at a regional level, as determined by each of the participating local school districts.

The District is a member of NEOSERRC and has a representative on the Governing Board. The District has no ongoing financial interest or financial responsibility to NEOSERRC.

North East Ohio Instructional Media Center (NEOIMC) - The North East Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among forty-five school districts. This jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member districts. Each member pays a monthly premium based on use of the media materials.

**SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting the Treasurer of the Trumbull Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

Trumbull Career and Technical Center - The Trumbull Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. Financial information may be obtained by contacting the Treasurer of the Trumbull Career and Technical Center, 528 Educational Highway, Warren, Ohio 44483.

16. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

17. 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient....

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

SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

18. STATUTORY RESERVES

The District is required by State statute annually to set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, the District is no longer required to maintain a budget stabilization reserve. However, restrictions have been placed on the disposition of any balances remaining in the previously required budget reserve.

The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital maintenance and budget stabilization. Disclosure of this information is required by State statute. The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts for capital maintenance below zero. The excess set aside may be carried forward to offset future years' capital maintenance set-aside requirements. revenue amounts, as defined, into various reserves.

During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Total
Balance 7/1/2002	\$ 0	\$ 1,311	\$ 19,406	\$ 20,717
Required Set-Aside	83,951	83,951	0	167,902
Offset Credits	0	0	0	0
Qualifying Expenditures	(24,898)	(42,721)	0	(67,619)
Balance 6/30/2003	<u>\$ 59,053</u>	<u>\$ 42,541</u>	<u>\$ 19,406</u>	<u>\$ 121,000</u>
Cash Balance Carried Forward to FY2004	<u>\$ 59,053</u>	<u>\$ 42,541</u>	<u>\$ 19,406</u>	<u>\$ 121,000</u>
Amount Restricted	<u>\$ 59,053</u>	<u>\$ 42,541</u>	<u>\$ 19,406</u>	<u>\$ 121,000</u>

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**Auditor of State
Betty Montgomery**

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

Southington Local School District
Trumbull County
4432 State Route 305 NW
Southington, Ohio 44470

To the Board of Education:

We have audited the financial statements of the Southington Local School District, Trumbull County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Southington Local School District
Trumbull County
Independent Accountants' Report on Compliance and on
Internal Control Required by Government *Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 29, 2004



**Auditor of State
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

**SOUTHINGTON LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2004**