



**Auditor of State
Betty Montgomery**

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets - June 30, 2004	13
Statement of Activities For the Fiscal Year Ended June 30, 2004.....	14
Balance Sheet – Governmental Funds - June 30, 2004.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - For the Fiscal Year Ended June 30, 2004	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – For the Fiscal Year Ended June 30, 2004.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund – For the Fiscal Year Ended June 30, 2004	19
Statement of Net Assets – Proprietary Fund – June 30, 2004	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund – For the Fiscal Year Ended June 30, 2004	21
Statement of Cash Flows – Proprietary Fund - For the Fiscal Year Ended June 30, 2004.....	22
Statement of Fiduciary Net Assets – Fiduciary Funds – June 30, 2004.....	23
Notes to the Basic Financial Statements for the Fiscal Year Ended June 30, 2004	25
Federal Awards Expenditures Schedule for the Year Ended June 30, 2004	55
Notes to the Federal Awards Expenditures Schedule – June 30, 2004	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
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	59
Schedule of Findings.....	61

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Struthers City School District
Mahoning County
99 Euclid Avenue
Struthers, Ohio 44471

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Struthers City School District, Mahoning County, Ohio (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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, each major fund, and the aggregate remaining fund information of Struthers City School District, Mahoning County, Ohio, as of June 30, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As described in Note 1 to the financial statements, the District has been declared to be in fiscal emergency under criteria established by Ohio Revised Code Chapter 118. This condition raises substantial doubt about the District's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 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.

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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 expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 31, 2006

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$3,117,533 which represents a 10.77% decrease from 2003.
- General revenues accounted for \$14,818,680 in revenue or 83.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,841,654 or 16.09% of total revenues of \$17,660,334.
- The District had \$20,777,867 in expenses related to governmental activities; \$2,841,654 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,818,680 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$14,063,377 in revenues and other financing sources and \$15,694,599 in expenditures. During fiscal year 2004, the general fund's fund deficit increased \$1,631,222 from \$1,576,580 to \$3,207,802.
- The District's other major governmental fund is the bond retirement fund. The bond retirement fund had \$1,668,617 in revenues and \$1,410,211 in expenditures. During fiscal year 2004, the bond retirement fund's fund balance increased \$258,406 from \$1,227,255 to \$1,485,661.

Using these Basic Financial Statements

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

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund, accounts for the self-insurance of dental and vision benefits. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-52 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Restated Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 6,141,674	\$ 12,478,047
Capital assets	<u>34,434,077</u>	<u>33,624,917</u>
Total assets	<u>40,575,751</u>	<u>46,102,964</u>
<u>Liabilities</u>		
Current liabilities	6,845,980	9,142,833
Long-term liabilities	<u>7,900,867</u>	<u>8,013,694</u>
Total liabilities	<u>14,746,847</u>	<u>17,156,527</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	28,790,293	27,635,744
Restricted	1,610,095	4,245,281
Unrestricted (deficit)	<u>(4,571,484)</u>	<u>(2,934,588)</u>
Total net assets	<u>\$ 25,828,904</u>	<u>\$ 28,946,437</u>

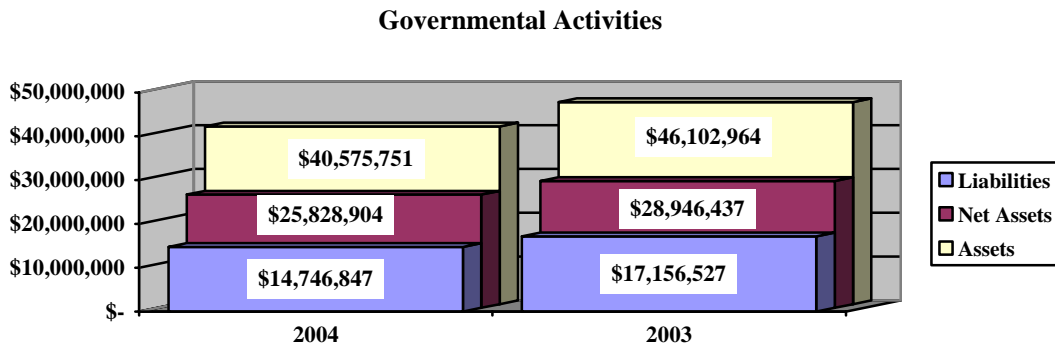
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$25,828,904. Of this total, \$1,610,095 is restricted in use.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

At year-end, capital assets represented 84.86% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$28,790,293. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,610,095, represents resources that are subject to external restriction on how they may be used.



The table below shows the change in net assets for fiscal year 2004 and 2003.

	Change in Net Assets			
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>	Increase (Decrease)	Percentage Change
Revenues				
Program revenues:				
Charges for services and sales	\$ 485,300	\$ 496,252	\$ (10,952)	(2.21) %
Operating grants and contributions	2,294,826	2,434,256	(139,430)	(5.73) %
Capital grants and contributions	61,528	79,812	(18,284)	(22.91) %
General revenues:				
Property taxes	4,607,301	4,828,407	(221,106)	(4.58) %
Grants and entitlements	10,019,153	13,544,515	(3,525,362)	(26.03) %
Investment earnings	51,280	200,045	(148,765)	(74.37) %
Gain on sale of capital assets	-	51,351	(51,351)	(100.00) %
Other	140,946	109,165	31,781	29.11 %
Total revenues	<u>17,660,334</u>	<u>21,743,803</u>	<u>(4,083,469)</u>	(18.78) %

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>	Increase (Decrease) <u></u>	Percentage Change <u></u>
<u>Expenses</u>				
Program expenses:				
Instruction:				
Regular	\$ 9,634,303	\$ 9,123,775	\$ 510,528	5.60 %
Special	1,615,999	1,532,875	83,124	5.42 %
Vocational	901,534	752,213	149,321	19.85 %
Adult	20,814	6,342	14,472	228.19 %
Other	861,029	-	861,029	100.00 %
Support services:				
Pupil	711,311	683,223	28,088	4.11 %
Instructional staff	550,746	512,492	38,254	7.46 %
Board of education	112,315	82,650	29,665	35.89 %
Administration	1,395,133	1,300,287	94,846	7.29 %
Fiscal	449,150	413,943	35,207	8.51 %
Business	52,295	55,962	(3,667)	(6.55) %
Operations and maintenance	2,112,822	1,503,000	609,822	40.57 %
Pupil transportation	417,734	535,796	(118,062)	(22.03) %
Central	93,595	74,922	18,673	24.92 %
Food service operations	652,409	651,738	671	0.10 %
Operations of non-instructional services	154,571	151,049	3,522	2.33 %
Extracurricular activities	466,562	465,723	839	0.18 %
Interest and fiscal charges	<u>575,545</u>	<u>444,065</u>	<u>131,480</u>	29.61 %
Total expenses	<u>20,777,867</u>	<u>18,290,055</u>	<u>2,487,812</u>	13.60 %
Change in net assets	(3,117,533)	3,453,748	(6,571,281)	(190.27)
Net assets at beginning of year (restated)	<u>28,946,437</u>	<u>25,492,689</u>	<u>3,453,748</u>	13.55 %
Net assets at end of year	<u>\$ 25,828,904</u>	<u>\$ 28,946,437</u>	<u>\$ (3,117,533)</u>	(10.77) %

Governmental Activities

Net assets of the District's governmental activities decreased \$3,117,533. Total governmental expenses of \$20,777,867 were offset by program revenues of \$2,841,654 and general revenues of \$14,818,680. Program revenues supported 13.68% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 82.82% of total governmental revenue.

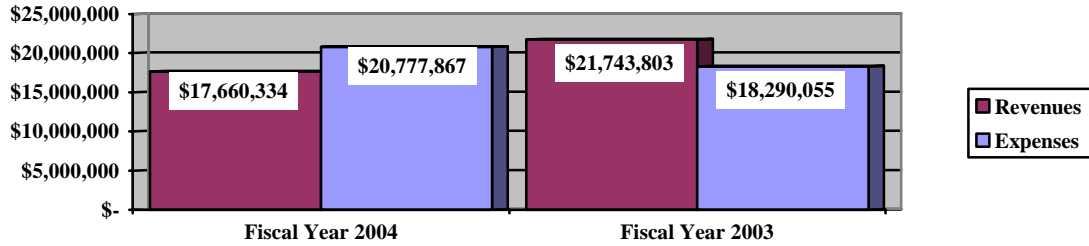
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,033,679 or 62.73% of total governmental expenses for fiscal 2004.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

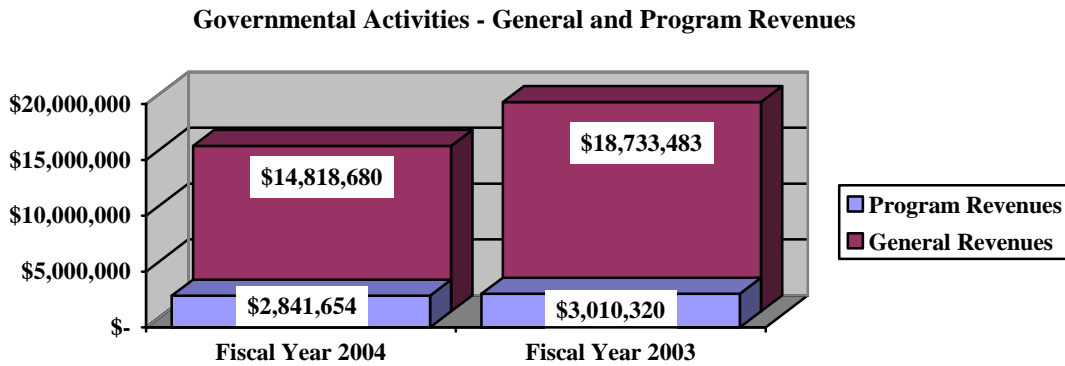
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 9,634,303	\$ 8,982,339	\$ 9,123,775	\$ 8,411,198
Special	1,615,999	1,045,632	1,532,875	834,273
Vocational	901,534	901,534	752,213	744,562
Adult	20,814	20,814	6,342	6,342
Other	861,029	772,056	-	-
Support services:				
Pupil	711,311	685,802	683,223	546,826
Instructional staff	550,746	239,865	512,492	224,498
Board of education	112,315	112,315	82,650	82,650
Administration	1,395,133	1,260,531	1,300,287	1,127,626
Fiscal	449,150	445,631	413,943	412,144
Business	52,295	52,295	55,962	55,962
Operations and maintenance	2,112,822	2,091,220	1,503,000	1,496,987
Pupil transportation	417,734	372,905	535,796	520,138
Central	93,595	93,595	74,922	67,225
Food service operations	652,409	76,931	651,738	54,827
Operations of non-instructional services	154,571	154,571	151,049	27,978
Extracurricular activities	466,562	52,632	465,723	222,434
Interest and fiscal charges	<u>575,545</u>	<u>575,545</u>	<u>444,065</u>	<u>444,065</u>
Total expenses	<u>\$ 20,777,867</u>	<u>\$ 17,936,213</u>	<u>\$ 18,290,055</u>	<u>\$ 15,279,735</u>

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 89.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.32%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004 and 2003.



The District's Funds

The District's governmental funds reported a combined fund deficit of \$1,129,238, which is lower than last year's fund balance of \$2,612,760. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance (Deficit) <u>June 30, 2004</u>	Fund Balance (Deficit) <u>June 30, 2003</u>	Increase (Decrease)	Percentage Change
General	\$ (3,207,802)	\$ (1,576,580)	\$ (1,631,222)	(103.47) %
Bond Retirement	1,485,661	1,227,255	258,406	21.06 %
Other Governmental	<u>592,903</u>	<u>2,962,085</u>	<u>(2,369,182)</u>	(79.98) %
Total	<u>\$ (1,129,238)</u>	<u>\$ 2,612,760</u>	<u>\$ (3,741,998)</u>	(143.22) %

General Fund

The District's general fund deficit increased \$1,631,222. The increase in fund deficit can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$2,353,162. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,478,135	\$ 4,118,154	\$ (640,019)	(15.54) %
Tuition	49,064	68,467	(19,403)	(28.34) %
Earnings on investments	39,143	67,285	(28,142)	(41.83) %
Intergovernmental	9,663,792	9,072,668	591,124	6.52 %
Other revenues	<u>111,303</u>	<u>111,160</u>	<u>143</u>	0.13 %
Total	<u>\$ 13,341,437</u>	<u>\$ 13,437,734</u>	<u>\$ (96,297)</u>	(0.72) %
<u>Expenditures</u>				
Instruction	\$ 10,177,480	\$ 9,330,250	\$ 847,230	9.08 %
Support services	4,720,527	4,411,852	308,675	7.00 %
Non-instructional services	296	5,434	(5,138)	(94.55) %
Extracurricular activities	218,732	204,730	14,002	6.84 %
Facilities acquisition and construction	306,346	-	306,346	100.00 %
Capital outlay	221,940	59,246	162,694	274.61 %
Debt service	<u>49,278</u>	<u>40,717</u>	<u>8,561</u>	21.03 %
Total	<u>\$ 15,694,599</u>	<u>\$ 14,052,229</u>	<u>\$ 1,642,370</u>	11.69 %

Bond Retirement Fund

The District's other major governmental fund is the bond retirement fund. The bond retirement fund had \$1,668,617 in revenues, an increase of \$785,175 from 2003. The bond retirement fund had \$1,410,211 in expenditures, an increase of \$634,568 from 2003. During fiscal year 2004, the bond retirement fund's fund balance increased \$258,406 from \$1,227,255 to \$1,485,661.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$13,679,055 and final budgeted revenues and other financing sources were \$14,703,356. Actual revenues and other financing sources for fiscal 2004 was \$13,613,360. This represents a \$1,089,996 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$15,379,475 were increased to \$15,472,300 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$15,569,702, which was \$97,402 higher than the final budget appropriations.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$34,434,077 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 422,600	\$ 422,600
Construction in progress	1,879,014	31,950
Land improvements	312,844	330,611
Building and improvements	26,442,302	27,465,258
Furniture and equipment	4,769,571	4,640,513
Vehicles	246,003	289,419
Textbooks	361,743	444,566
Total	\$ 34,434,077	\$ 33,624,917

The overall increase in capital assets of \$809,160 is due to capital outlays of \$2,074,004 exceeding depreciation expense of \$1,264,844 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$6,176,508 in general obligation bonds and \$286,500 in energy conservation notes outstanding. Of this total, \$402,416 is due within one year and \$6,060,592 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
General obligation bonds	\$ 6,176,508	\$ 6,458,411
Energy conservation notes	286,500	308,200
Total	\$ 6,463,008	\$ 6,766,611

At June 30, 2004, the District's overall legal debt margin was \$7,186,254, and an unvoted debt margin of \$131,968.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Current Financial Related Activities

Struthers City School District has a weak financial outlook due to its over reliance upon grants and state entitlements. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. Reductions in state aid during FY 2004 and a drop in enrollment resulted in a revenue loss which caused the district to end the fiscal year with a negative general fund cash balance.

The financial forecast future of the school district is not without its challenges though. These challenges are external in nature. These external challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the state has directed its additional financial support toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again, ruled that, while the state had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the state's school funding system. The decision identified aspects of the current plan that require modification. In general, it is expected that the decision would result in an increase in overall state funding for education. 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...". As of this date, the school district is unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

Struthers City School District has not anticipated any meaningful growth in state revenue due to the concern the state may require the redistribution of commercial and industrial property taxes. With 22 percent of the taxes for the school district coming from local business and industry, one can see the significant impact this change would have on the school district and ultimately, the residential taxpayers.

As a result of the challenge mentioned above, it is imperative the school district's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years. In response to these challenges, the district has implemented cost reductions in FY 2005 and 2006 and plans to place an operating levy on the ballot in May 2005.

In summary, the Struthers City School District has committed itself to financial and educational excellence for many years to come.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. Michael Evanson, Treasurer, Struthers City School District, 99 Euclid Avenue, Struthers, Ohio 44471-1831.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,424,917
Cash with fiscal agent.	30,961
Cash in segregated accounts	41,605
Receivables:	
Taxes	4,539,018
Accounts	3,500
Intergovernmental	21,952
Materials and supplies inventory.	14,197
Deferred charges	65,524
Capital assets:	
Land	422,600
Construction in progress	1,879,014
Depreciable capital assets, net	32,132,463
Capital assets, net.	34,434,077
 Total assets.	 40,575,751
 Liabilities:	
Accounts payable.	68,287
Retainage payable	41,605
Accrued wages and benefits	1,677,169
Pension obligation payable.	376,302
Intergovernmental payable	87,686
Deferred revenue	4,083,421
Accrued interest payable	29,609
State operating loan payable	468,708
Claims payable	13,193
Long-term liabilities:	
Due within one year.	564,160
Due within more than one year	7,336,707
 Total liabilities	 14,746,847
 Net Assets:	
Invested in capital assets, net of related debt.	28,790,293
Restricted for:	
Capital projects	409,098
Debt service.	1,200,997
Unrestricted (deficit)	(4,571,484)
 Total net assets	 \$ 25,828,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,634,303	\$ 38,187	\$ 613,777	\$ -	\$ (8,982,339)
Special	1,615,999	-	570,367	-	(1,045,632)
Vocational	901,534	-	-	-	(901,534)
Adult	20,814	-	-	-	(20,814)
Other	861,029	-	32,948	56,025	(772,056)
Support services:					
Pupil	711,311	-	25,509	-	(685,802)
Instructional staff	550,746	-	310,881	-	(239,865)
Board of education	112,315	-	-	-	(112,315)
Administration	1,395,133	-	134,602	-	(1,260,531)
Fiscal	449,150	3,142	236	141	(445,631)
Business	52,295	-	-	-	(52,295)
Operations and maintenance	2,112,822	8,390	7,850	5,362	(2,091,220)
Pupil transportation	417,734	30,163	14,666	-	(372,905)
Central	93,595	-	-	-	(93,595)
Operation of non-instructional services:					
Food service operations	652,409	153,995	421,483	-	(76,931)
Other non-instructional services	154,571	-	-	-	(154,571)
Extracurricular activities	466,562	251,423	162,507	-	(52,632)
Interest and fiscal charges	575,545	-	-	-	(575,545)
Total governmental activities	\$ 20,777,867	\$ 485,300	\$ 2,294,826	\$ 61,528	(17,936,213)

General Revenues:

Property taxes levied for:

General purposes	3,270,816
Special revenue	52,928
Debt service	1,250,760
Capital projects	32,797
Grants and entitlements not restricted to specific programs	10,019,153
Investment earnings	51,280
Miscellaneous	140,946
Total general revenues	14,818,680
Change in net assets	(3,117,533)
Net assets at beginning of year (restated)	28,946,437
Net assets at end of year	\$ 25,828,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 486,075	\$ 938,842	\$ 1,424,917
Cash with fiscal agent.	-	-	41,605	41,605
Receivables:				
Taxes	3,844,790	640,189	54,039	4,539,018
Accounts	3,500	-	-	3,500
Intergovernmental	853	-	21,099	21,952
Interfund	-	999,586	-	999,586
Materials and supplies inventory	-	-	14,197	14,197
Total assets	<u>\$ 3,849,143</u>	<u>\$ 2,125,850</u>	<u>\$ 1,069,782</u>	<u>\$ 7,044,775</u>
Liabilities:				
Accounts payable	\$ 19,368	\$ -	\$ 48,919	\$ 68,287
Retainage payable	-	-	41,605	41,605
Accrued wages and benefits	1,445,730	-	231,439	1,677,169
Compensated absences payable	48,814	-	-	48,814
Pension obligation payable.	203,952	-	34,692	238,644
Intergovernmental payable.	75,024	-	12,662	87,686
Interfund payable.	950,559	-	49,027	999,586
State operating loan payable	468,708	-	-	468,708
Deferred revenue.	3,844,790	640,189	58,535	4,543,514
Total liabilities	<u>7,056,945</u>	<u>640,189</u>	<u>476,879</u>	<u>8,174,013</u>
Fund Balances:				
Reserved for encumbrances	144,829	-	276,151	420,980
Reserved for materials and supplies inventory.	-	-	14,197	14,197
Reserved for debt service.	-	1,485,661	-	1,485,661
Reserved for school bus purchases.	1,893	-	-	1,893
Unreserved, undesignated (deficit), reported in:				
General fund	(3,354,524)	-	-	(3,354,524)
Special revenue funds.	-	-	62,794	62,794
Capital projects funds.	-	-	239,761	239,761
Total fund balances (deficit)	<u>(3,207,802)</u>	<u>1,485,661</u>	<u>592,903</u>	<u>(1,129,238)</u>
Total liabilities and fund balances	<u>\$ 3,849,143</u>	<u>\$ 2,125,850</u>	<u>\$ 1,069,782</u>	<u>\$ 7,044,775</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Total governmental fund balances		\$ (1,129,238)
<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.		34,434,077
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 455,597	
Intergovernmental revenue	<u>4,496</u>	
Total		460,093
An internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		17,768
Bond issuance costs will be amortized over the life of the bonds on the state of net assets.		65,524
Unamortized deferred amount on advance refunding is not recognized in the funds.		30,172
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,215,047	
Pension obligation payable	137,658	
General obligation bonds payable	6,176,508	
Capital lease obligation	204,170	
Energy conservation note	286,500	
Accrued interest payable	<u>29,609</u>	
Total		<u>(8,049,492)</u>
Net assets of governmental activities		<u><u>\$ 25,828,904</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,478,135	\$ 1,313,256	\$ 101,101	\$ 4,892,492
Tuition.	49,064	-	-	49,064
Transportation fees.	30,163	-	-	30,163
Earnings on investments.	39,143	-	11,884	51,027
Charges for services.	-	-	153,995	153,995
Extracurricular.	-	-	220,719	220,719
Classroom materials and fees.	-	-	14,807	14,807
Other local revenues.	81,140	-	109,913	191,053
Intergovernmental - State.	9,663,570	355,361	878,700	10,897,631
Intergovernmental - Federal	222	-	1,553,721	1,553,943
Total revenue	<u>13,341,437</u>	<u>1,668,617</u>	<u>3,044,840</u>	<u>18,054,894</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,668,434	-	622,566	8,291,000
Special.	972,095	-	617,575	1,589,670
Vocational.	844,395	-	-	844,395
Adult.	-	-	20,814	20,814
Other.	692,556	-	163,237	855,793
Support services:				
Pupil.	669,416	-	32,225	701,641
Instructional staff	172,284	-	308,463	480,747
Board of education	108,724	-	-	108,724
Administration.	1,310,134	-	145,249	1,455,383
Fiscal	428,051	16,068	2,894	447,013
Business	51,257	-	-	51,257
Operations and maintenance.	1,546,511	-	582,048	2,128,559
Pupil transportation	361,950	-	14,044	375,994
Central.	72,200	-	13,286	85,486
Operation of non-instructional services:				
Food service operations	-	-	632,989	632,989
Other non-instructional services.	296	-	152,576	152,872
Extracurricular activities.	218,732	-	248,441	467,173
Facilities acquisition and construction	306,346	-	1,847,064	2,153,410
Capital outlay	221,940	-	-	221,940
Debt service:				
Principal retirement	17,770	886,700	9,180	913,650
Interest and fiscal charges	31,508	507,443	1,371	540,322
Total expenditures	<u>15,694,599</u>	<u>1,410,211</u>	<u>5,414,022</u>	<u>22,518,832</u>
Excess of revenues over (under) expenditures	<u>(2,353,162)</u>	<u>258,406</u>	<u>(2,369,182)</u>	<u>(4,463,938)</u>
Other financing sources:				
Proceeds from sale of notes	500,000	-	-	500,000
Proceeds from capital lease transaction	221,940	-	-	221,940
Total other financing sources.	<u>721,940</u>	<u>-</u>	<u>-</u>	<u>721,940</u>
Net change in fund balances	(1,631,222)	258,406	(2,369,182)	(3,741,998)
Fund balances at beginning of year	<u>(1,576,580)</u>	<u>1,227,255</u>	<u>2,962,085</u>	<u>2,612,760</u>
Fund balances at end of year.	<u>\$ (3,207,802)</u>	<u>\$ 1,485,661</u>	<u>\$ 592,903</u>	<u>\$ (1,129,238)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	(3,741,998)
<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 outlays (\$2,074,004) exceeds depreciation expense (\$1,264,844) in the current period.		809,160
Deferred amounts on advance refundings are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(2,897)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		65,524
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(394,813)
Repayment of bond, loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		913,650
Proceeds of notes and bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(500,000)
Proceeds from capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(221,940)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(26,036)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(17,254)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(929)
Change in net assets of governmental activities	\$	(3,117,533)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,587,902	\$ 3,856,568	\$ 3,478,135	\$ (378,433)
Tuition.	134,899	145,000	49,064	(95,936)
Transportation fees.	29,771	32,000	26,663	(5,337)
Earnings on investments.	71,589	76,950	39,204	(37,746)
Other local revenues	89,375	96,067	75,536	(20,531)
Intergovernmental - State	9,634,243	10,355,665	9,416,563	(939,102)
Intergovernmental - Federal.	13,955	15,000	222	(14,778)
Total revenue	<u>13,561,734</u>	<u>14,577,250</u>	<u>13,085,387</u>	<u>(1,491,863)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,183,288	8,232,679	7,674,263	558,416
Special.	888,686	894,050	958,862	(64,812)
Vocational.	606,259	609,918	924,945	(315,027)
Other.	466,591	469,407	689,938	(220,531)
Support services:				
Pupil.	718,788	723,126	638,456	84,670
Instructional staff	161,627	162,603	178,831	(16,228)
Board of education	147,940	148,833	124,319	24,514
Administration.	1,220,179	1,227,544	1,213,039	14,505
Fiscal	459,740	462,515	437,258	25,257
Business	95,422	95,998	67,352	28,646
Operations and maintenance.	1,703,274	1,713,554	1,654,962	58,592
Pupil transportation	370,586	372,823	374,312	(1,489)
Central.	75,945	76,403	72,950	3,453
Operation of non-instructional services	3,479	3,500	300	3,200
Extracurricular activities.	216,476	217,783	212,445	5,338
Facilities acquisition and construction.	56,225	56,564	342,296	(285,732)
Total expenditures	<u>15,374,505</u>	<u>15,467,300</u>	<u>15,564,528</u>	<u>(97,228)</u>
Excess of revenues over (under) expenditures.	<u>(1,812,771)</u>	<u>(890,050)</u>	<u>(2,479,141)</u>	<u>(1,589,091)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	-	-	1,578	1,578
Transfers (out)	(4,970)	(5,000)	(5,174)	(174)
Advances in.	10,332	11,106	-	(11,106)
Proceeds from sale of notes.	-	-	500,000	500,000
Proceeds from sale of capital assets.	106,989	115,000	26,395	(88,605)
Total other financing sources (uses)	<u>112,351</u>	<u>121,106</u>	<u>522,799</u>	<u>401,693</u>
Net change in fund balance	(1,700,420)	(768,944)	(1,956,342)	(1,187,398)
Fund balance at beginning of year.	387,687	387,687	387,687	-
Prior year encumbrances appropriated	447,595	447,595	447,595	-
Fund balance at end of year	<u>\$ (865,138)</u>	<u>\$ 66,338</u>	<u>\$ (1,121,060)</u>	<u>\$ (1,187,398)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Cash in segregated accounts	<u>\$ 30,961</u>
Total assets	<u>30,961</u>
Liabilities:	
Claims payable	<u>13,193</u>
Total liabilities	<u>13,193</u>
Net assets:	
Unrestricted	<u>17,768</u>
Total net assets	<u><u>\$ 17,768</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 113,195
Total operating revenues	<u>113,195</u>
Operating expenses:	
Purchased services	7,458
Claims	<u>106,919</u>
Total operating expenses	<u>114,377</u>
Operating loss	<u>(1,182)</u>
Nonoperating revenues:	
Interest revenue	<u>253</u>
Total nonoperating revenues	<u>253</u>
Change in net assets.	(929)
Net assets at beginning of year	<u>18,697</u>
Net assets at end of year.	<u><u>\$ 17,768</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 113,195
Cash payments for purchased services	(7,458)
Cash payments for claims.	<u>(105,383)</u>
Net cash provided by operating activities	<u>354</u>
Cash flows from investing activities:	
Interest received.	<u>253</u>
Net cash provided by investing activities	<u>253</u>
Net increase in cash and cash equivalents	607
Cash in segregated accounts at beginning of year .	<u>30,354</u>
Cash in segregated accounts at end of year	<u><u>\$ 30,961</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,182)
Changes in assets and liabilities:	
Increase in claims payable	<u>1,536</u>
Net cash provided by operating activities	<u><u>\$ 354</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 36,349
Total assets.	\$ 36,349
Liabilities:	
Accounts payable.	\$ 2,141
Due to students	34,208
Total liabilities	\$ 36,349

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Struthers City School District (the "District") operates under a locally-elected five-member Board and provides educational services as authorized by State and federal agencies. The Board controls the District's five instructional support facilities staffed by 82 non-certificated and 141 certified full-time teaching personnel and 14 administrative employees who provide services to students and other community members.

The District is located in Struthers, Ohio, Mahoning County, including an area extending roughly five miles around the City. The enrollment for the District during the 2004 fiscal year was 1,987. The District operates three elementary schools (K-4), one middle school (5-8), and one high school (9-12).

On May 11, 2005, the District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under Section 3316.03 B (5), Ohio Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of Struthers. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the District must be in accordance with the plan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS) Council of Governments

ACCESS is a computer network which provides data services to twenty-three 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 among member districts. Each of the governments of these schools supports ACCESS based on a per pupil charge. The District contributed \$45,683 to ACCESS during fiscal year 2004. ACCESS is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting, and designating management. All of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Suite 105, Youngstown, Ohio, 44512-7019.

Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The 5 members of the Governing Board of the Mahoning County Educational Service Center (the "ESC") are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes 2 other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

Ohio Schools' Council Association

The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the District paid \$45,491 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

SHARED RISK POOL

The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly exercises control over the operation of the Consortium. All Consortium revenue is generated from charges for services. To obtain the financial information write to Mahoning County Insurance Consortium, 100 Debartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

B. Fund Accounting

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

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 is the District's major governmental fund:

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides dental and vision benefits to employees.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund 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 District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

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

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

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

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

E. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Mahoning County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function and object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and object level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, 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 basic financial statements.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$39,143, which includes \$33,819 assigned from other funds.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

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

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

G. Inventory

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

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

H. Capital Assets

All capital assets of the District are general capital assets. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	10 - 99 years
Buildings and improvements	10 - 99 years
Furniture and equipment	5 - 10 years
Vehicles	10 years
Textbooks and library books	5 - 10 years

I. Interfund Balances

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

J. Compensated Absences

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

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

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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 the internal service fund 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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, and school bus purchases.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund

N. Net Assets

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

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

O. Prepayments

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

P. Estimates

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

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

R. Interfund Activity

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

S. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 3,207,802
<u>Nonmajor Funds</u>	
Food Service	64,356
Gifted Education	459
DPIA	77,776
Miscellaneous State Grants	2,398
Eisenhower Development	104
Title I	74,434
Improving Teacher Quality	17,541
Miscellaneous Federal Grants	29,053

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

B. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had a negative cash balance in the General fund at June 30, 2004.

Contrary to Section 5705.36(A)(4), Ohio Revised Code, the District's estimated receipts were in excess of actual receipts in the food service fund. Also, this reduced receipt amount caused the actual amount of funds available to fall below the total appropriations for the fund.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

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

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

Cash on Hand: At fiscal year-end, the District had \$3,500 in undeposited cash which is included on the balance sheet as part of "equity in pooled cash and cash equivalents."

Cash with Fiscal Agent: The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$30,961.

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

Deposits: At year-end, the carrying amount of the District's deposits was \$1,063,357 and the bank balance was \$1,224,181. Of the bank balance:

1. \$572,566 was covered by federal depository insurance deposited with the District; and
2. \$651,615 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

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

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreement	\$ 325,250	\$ 325,250	\$ 325,250
Investment in STAR Ohio		<u>162,732</u>	<u>162,732</u>
Total investments		<u>\$ 487,982</u>	<u>\$ 487,982</u>

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,554,839	\$ -
Investments of the cash management pool:		
Repurchase agreement	(325,250)	325,250
Investment in STAR Ohio	(162,732)	162,732
Cash on hand	<u>(3,500)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 1,063,357</u>	<u>\$ 487,982</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Bond Retirement	General	\$ 950,559
Bond Retirement	Nonmajor governmental funds	49,027

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

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

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

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

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

There was no amount available as an advance to the District at June 30, 2004 and at June 30, 2003.

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 114,766,370	87.27	\$ 115,921,780	87.84
Public utility personal	8,004,870	6.09	7,599,120	5.76
Tangible personal property	<u>8,734,660</u>	<u>6.64</u>	<u>8,446,894</u>	<u>6.40</u>
Total	<u>\$ 131,505,900</u>	<u>100.00</u>	<u>\$ 131,967,794</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 68.20		\$ 60.90	

NOTE 7 - RECEIVABLES

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

Governmental Activities:

Taxes	\$ 4,539,018
Accounts	3,500
Intergovernmental	<u>21,952</u>
Total	<u>\$ 4,564,470</u>

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

- A. As of June 30, 2003, certain capital asset classes have been restated in order to properly report their respective balances. There was no effect on net assets as of June 30, 2003 as a result of this restatement.

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 972,914	\$ (550,314)	\$ 422,600
Construction in progress	<u>31,950</u>	<u>-</u>	<u>31,950</u>
Total capital assets, not being depreciated	<u>1,004,864</u>	<u>(550,314)</u>	<u>454,550</u>
Capital assets, being depreciated:			
Land improvements	768,172	(217,858)	550,314
Buildings and improvements	30,495,347	-	30,495,347
Furniture and equipment	6,132,192	768,172	6,900,364
Vehicles	885,787	-	885,787
Textbooks	<u>496,934</u>	<u>-</u>	<u>496,934</u>
Total capital assets, being depreciated	<u>38,778,432</u>	<u>550,314</u>	<u>39,328,746</u>
<i>Less: accumulated depreciation:</i>	<u>(6,158,379)</u>	<u>-</u>	<u>(6,158,379)</u>
Governmental activities capital assets, net	<u>\$ 33,624,917</u>	<u>\$ -</u>	<u>\$ 33,624,917</u>

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 422,600	\$ -	\$ -	\$ 422,600
Construction in progress	<u>31,950</u>	<u>1,847,064</u>	<u>-</u>	<u>1,879,014</u>
Total capital assets, not being depreciated	<u>454,550</u>	<u>1,847,064</u>	<u>-</u>	<u>2,301,614</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	550,314	-	-	550,314
Buildings and improvements	30,495,347	-	-	30,495,347
Furniture and equipment	6,900,364	226,940	-	7,127,304
Vehicles	885,787	-	-	885,787
Textbooks	<u>496,934</u>	<u>-</u>	<u>-</u>	<u>496,934</u>
Total capital assets, being depreciated	<u>39,328,746</u>	<u>226,940</u>	<u>-</u>	<u>39,555,686</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(219,703)	(17,767)	-	(237,470)
Buildings and improvements	(3,030,089)	(1,022,956)	-	(4,053,045)
Furniture and equipment	(2,259,851)	(97,882)	-	(2,357,733)
Vehicles	(596,368)	(43,416)	-	(639,784)
Textbooks	<u>(52,368)</u>	<u>(82,823)</u>	<u>-</u>	<u>(135,191)</u>
Total accumulated depreciation	<u>(6,158,379)</u>	<u>(1,264,844)</u>	<u>-</u>	<u>(7,423,223)</u>
Governmental activities capital assets, net	<u>\$ 33,624,917</u>	<u>\$ 809,160</u>	<u>\$ -</u>	<u>\$ 34,434,077</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 1,103,664
Vocational	45,988

Support Services:

Instructional staff	54,299
Board of Education	3,770
Pupil transportation	43,416
Operation of non-instructional	250
Food service operations	<u>13,457</u>

Total depreciation expense \$ 1,264,844

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal 2004, the District entered into capitalized leases for fitness equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$221,940. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$17,770 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 77,322
2006	77,348
2007	<u>57,996</u>
Total minimum lease payments	212,666
Less amount representing interest	<u>(8,496)</u>
Total	<u>\$ 204,170</u>

NOTE 10 - NOTE DEBT

The District's note activity for the fiscal year ended June 30, 2004, is as follows:

	<u>Principal Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2004</u>
General Fund				
State Operating Loan 5.10%	<u>\$ 685,768</u>	<u>\$ -</u>	<u>\$ (217,060)</u>	<u>\$ 468,708</u>

The State operating loan will be paid from the general fund with school foundation revenue. A liability for the notes is reflected in the general fund which received the proceeds.

Principal and interest payments to retire the State operating loan are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>State Operating Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 228,392	\$ 18,614
2006	<u>240,316</u>	<u>6,647</u>
Total	<u>\$ 468,708</u>	<u>\$ 25,261</u>

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2004</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 6,425,342	\$ 95,174	\$ (374,180)	\$ 6,146,336	\$ 379,616
Energy conservation note	308,200	-	(21,700)	286,500	22,800
Capital lease obligation	-	221,940	(17,770)	204,170	72,375
Compensated absences	<u>1,280,152</u>	<u>86,263</u>	<u>(102,554)</u>	<u>1,263,861</u>	<u>89,369</u>
Total long-term obligations, governmental activities	<u>\$ 8,013,694</u>	<u>\$ 403,377</u>	<u>\$ (516,204)</u>	<u>\$ 7,900,867</u>	<u>\$ 564,160</u>

On October 15, 2002, the District issued \$1,750,000 in general obligation bonds at interest rates varying from 1.50 percent to 3.90 percent. Bond proceeds were used to refund \$1,750,000 of the 1992 school improvement bonds.

Proceeds of \$1,785,000 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunding portion of the 1992 school improvement bonds. As a result, \$1,750,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$35,000. This difference, being reported as a deferral in the accompanying financial statements, is being charged to operations through the fiscal year 2015 using the straight-line method. The District decreased its total debt service payments by \$475,713 as a result of the advance refunding. The District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$376,869.

On December 1, 1992, the District issued \$3,799,501 in voted general obligation bonds for renovation at the Struthers City Schools. The bonds were issued for a fourteen year period.

On December 1, 2000, the District issued \$4,195,097 in voted general obligation bonds for the purpose of renovation and construction of the new and existing school buildings. The bonds were issued for a fifteen year period. The bond issue included \$1,770,000 in serial bonds and \$1,950,000 in term bonds.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 235,000
2017	250,000
2018	265,000
2019	275,000
2020	290,000
2021	310,000

The remaining principal amount of the term bonds \$(325,000) will mature at stated maturity on December 1, 2022.

The term bonds maturing after December 1, 2011 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 1, 2011, at redemption prices equal to the following percentages of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

<u>Redemption Period</u>	<u>Redemption Price</u>
December 1, 2010 through November 30, 2011	101.00%
December 1, 2001 and thereafter	100.00 %

On December 1, 2001, the District issued \$46,000 in real estate acquisition bonds for the purpose of purchasing property in order to provide classroom expansion opportunities. The bonds were issued for a five year period.

The 1992 and 2000 general obligation bonds include capital appreciation bonds. This year the addition on these bonds aggregating \$95,756 represents the accretion of discounted interest. The final maturity of these bonds is \$1,930,000.

On December 21, 1998, the District issued \$373,600 in energy conservation notes for the purpose of replacing boilers and windows. The bonds were issued for a fifteen year period.

The school improvement bonds will be paid from the bond retirement debt service fund. Compensated absences will be paid from the general and food service, auxiliary services, disadvantaged pupil impact aid, Title I, class size reduction and miscellaneous federal grants special revenue funds.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** The following is a summary of the District's future annual debt service requirements to maturity for general obligation and energy conservation notes:

Fiscal Year Ending June 30	General Obligation Bonds					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 189,616	\$ 233,513	\$ 423,129	\$ 190,000	\$ -	\$ 190,000
2006	200,073	224,936	425,009	190,000	-	190,000
2007	195,000	215,865	410,865	185,000	-	185,000
2008	380,000	203,918	583,918	-	-	-
2009	395,000	188,349	583,349	-	-	-
2010 - 2014	1,500,000	717,928	2,217,928	705,000	-	705,000
2015 - 2019	985,000	481,076	1,466,076	235,000	-	235,000
2020 - 2023	1,200,000	136,674	1,336,674	-	-	-
Total	<u>\$ 5,044,689</u>	<u>\$ 2,402,259</u>	<u>\$ 7,446,948</u>	<u>\$ 1,505,000</u>	<u>\$ -</u>	<u>\$ 1,505,000</u>

Fiscal Year Ending June 30	Energy Conservation Note		
	Principal	Interest	Total
2005	\$ 22,800	\$ 14,239	\$ 37,039
2006	23,900	13,106	37,006
2007	25,100	11,918	37,018
2008	26,400	10,671	37,071
2009	27,700	9,359	37,059
2010 - 2014	160,600	24,726	185,326
Total	<u>\$ 286,500</u>	<u>\$ 84,019</u>	<u>\$ 370,519</u>

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$7,186,254 and an unvoted debt margin of \$131,968.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District contracted with Indiana Insurance Company property insurance with a \$1,000 deductible. Professional liability is protected by the Indiana Insurance Company with a \$3,000,000 aggregate limit.

Vehicles are covered by the Grange Mutual Casualty Company and hold \$250 deductibles for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability. CB radios on the District's buses are covered by Grange Mutual Casualty Company.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

\$10,000 performance bonds are maintained for both the board president and superintendent. A \$20,000 performance bond is maintained for the treasurer. A \$25,000 per position blanket bond is maintained for all other employees. All performance bonds are maintained by the Hartford Insurance Company, and the blanket bond is maintained by the Indiana Insurance Company.

B. Employee Health Benefits

The District has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical benefits. The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County school districts. Rates are set through an annual calculation process. The Struthers City School District pays a monthly contribution which is placed in a common fund from which claims payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The District pays medical/surgical premiums of \$1,062.95 for family coverage and \$433.49 for single coverage per employee per month.

The District has elected to provide vision and dental benefits through a self-insurance program. The District maintains an insurance reserve internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, Professional Risk Management located in Youngstown, Ohio, review all claims which are then paid by the District. The District pays into the insurance reserve internal service fund \$8.00 for family vision coverage or \$3.50 for single vision coverage per employee per month which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$13,193 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 11,657	\$ 106,919	\$ (105,383)	\$ 13,193
2003	12,599	108,065	(109,007)	11,657

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The adequacy of the contribution rates is determined annually. The District’s required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$183,869, \$151,655, and \$82,666, respectively; 42.74% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$105,278, represents the unpaid contribution for fiscal year 2004.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,037,464, \$695,571, and \$625,179, respectively; 83.48% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$171,411 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$1,436 made by the District and \$7,596 made by plan members.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$79,805 during fiscal 2004.

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

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

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$133,276 during the 2004 fiscal year.

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (1,956,342)
Net adjustment for revenue accruals	255,350
Net adjustment for expenditure accruals	(299,872)
Net adjustment for other sources/uses	199,141
Adjustment for encumbrances	170,501
GAAP basis	<u>\$ (1,631,222)</u>

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 17 - STATUTORY RESERVES

The District is required by state statute to set-aside in the general fund an amount based on a 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.

The following cash basis information describes the change in the fiscal year end set-aside amounts for textbooks, and capital acquisition. Disclosure of this information is required by state statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (407,978)	\$ -
Current year set-aside requirement	290,482	290,482
Current year offsets	-	(101,101)
Qualifying disbursements	<u>(320,663)</u>	<u>(239,938)</u>
Total	<u>\$ (438,159)</u>	<u>\$ (50,557)</u>
Cash balance carried forward to FY 2005	<u>\$ (438,159)</u>	<u>\$ -</u>

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

NOTE 17 - STATUTORY RESERVES - (Continued)

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks and the capital acquisition set-aside amounts below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital acquisition may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

In addition to the above statutory reserves, the District also has fund balance reserved for school bus purchases.

Amount reserved for school bus purchases	<u>\$ 1,893</u>
Total reserved fund balance	<u>\$ 1,893</u>

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**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation Program		10.550	-	\$58,397	-	\$58,397
School Breakfast Program		10.553	\$61,259	-	\$61,259	-
National School Lunch Program		10.555	<u>336,030</u>	-	<u>336,030</u>	-
Total Department of Agriculture - Nutrition Cluster			<u>397,289</u>	<u>58,397</u>	<u>397,289</u>	<u>58,397</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States - Literacy Interg.	6B-II-03	84.027	80,563	-	63,276	-
Title VI-B Access	6B-SD-04	84.027	39,862	-	9,721	-
Title VI-B Autism	6B-SA-04	84.027	30,000	-	12,955	-
Handicapped State Grants - Title VI-B	6B-SF-03	84.027	0	-	21,169	-
	6B-SF-04	84.027	<u>259,257</u>	-	<u>278,857</u>	-
Total Special Education Cluster			409,682	-	385,978	-
Title I Grants to Local Educational Agencies	C1-S1-03	84.010	0	-	28,320	-
Total	C1-S1-04	84.010	<u>527,544</u>	-	<u>518,512</u>	-
			527,544	-	546,832	-
Safe and Drug Free Schools and Communities	DR-S1-03	84.186	0	-	4,569	-
Total	DR-S1-04	84.186	<u>15,224</u>	-	<u>10,355</u>	-
			15,224	-	14,924	-
Goals 2000 Continuous Improvement	G2-S4-01	84.276	0	-	1,087	-
Education Technology State Grants	TJ-S1-02	84.318	0	-	1	-
	TJ-S1-03	84.318	1,389	-	13,676	-
Total	TJ-S1-04	84.318	<u>11,293</u>	-	<u>11,293</u>	-
			12,682	-	24,970	-
State Grants for Innovative Programs	C2-S1-04	84.298	13,525	-	12,525	-
Improving Teacher Quality State Grants	TR-S1-04	84.367	<u>136,033</u>	-	<u>136,033</u>	-
Total Department of Education			<u>1,114,690</u>	<u>0</u>	<u>1,122,349</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>passed through Ohio Department of MRDD</i>						
Medical Assistance Program		93.778	<u>21,673</u>	-	<u>47,005</u>	-
Totals			<u>\$1,533,652</u>	<u>\$58,397</u>	<u>\$1,566,643</u>	<u>\$58,397</u>

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

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards 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 nonmonetary assistance (expenditure) 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*

Struthers City School District
Mahoning County
99 Euclid Avenue
Struthers, Ohio 44471

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Struthers City School District, Mahoning County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2006 wherein we noted the District's declaration of fiscal emergency raises substantial doubt about its ability to continue as a going concern. 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 opinions 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 to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the District's management dated January 31, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, 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

January 31, 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

Struthers City School District
Mahoning County
99 Euclid Avenue
Struthers, Ohio 44471

To the Board of Education:

Compliance

We have audited the compliance of Struthers City School District, Mahoning County (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, 2004. 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 as 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2004-003.

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.

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 the audit committee, management, 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

January 31, 2006

**STRUTHERS CITY SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster – CFDA #10.550 - #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code Section 5705.36(A)(4) provides in part that upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in the current official certificate, the fiscal officer shall certify the amount of the deficiency to the county budget commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency.

**FINDING NUMBER 2004-001
 (Continued)**

The intent of this statutory requirement is to require a subdivision to certify receipt amounts based on realistic projection of receipts and to require the fiscal officer to obtain a "reduction" certificate when it appears that budgetary resources will fall short of earlier estimates, reducing the possibility that deficit spending will occur. The District's estimated receipts were in excess of actual receipts in the following fund and by the stated amount. Also, this reduced receipt amount caused the actual amount of funds available to fall below the total appropriations for the fund.

<u>Fund</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise Fund			
006 Food Service	\$647,799	\$574,590	\$(73,209)

We recommend the District obtain a reduced amended certificate of estimated resources, and subsequently reduce appropriations, if needed, when it becomes apparent that actual receipts will become less than the amounts estimated.

FINDING NUMBER 2004-002

Noncompliance Citation

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

The following funds carried negative fund balances at one point during fiscal year 2004:

Funds

001 General Fund	499 Miscellaneous State Grants Fund
006 Food Service Fund	514 Eisenhower Development Grant Fund
019 Other Grant Fund	516 IDEA Part B Fund
022 District Agency Fund	572 Title I Fund
401 Auxiliary Services Fund	573 Title VI
431 Gifted Education Fund	584 Drug Free School Fund
447 Disadvantaged Pupil Fund	590 Improving Teacher Quality
452 SchoolNet Professional Development Fund	599 Miscellaneous Federal Grants Fund

We also noted the following fund with a negative fund balance at the end of the fiscal year:

<u>Fund</u>	<u>Fund Balance as of 6/30/04</u>
001 General	\$(948,264)

We recommend that the District use funds from a specific fund only for purposes for which such a fund has been established, so as to avoid having funds with negative fund balances and to comply with Ohio Revised Code Section 5705.10.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Verification of Information on Free and Reduced Lunch Applications

Finding Number	2004-003
CFDA Title and Number	Nutrition Cluster 10.550, 10.553, 10.555
Federal Award Number/Year	2004
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

7 Code of Federal Regulations 245.6a specifies, in part, that: "School officials may seek verification of the information on the (free and reduced lunch) application. State agencies shall ensure that by December 15 of each School Year, School Food Authorities have selected and verified a sample of their approved free and reduced price applications in accordance with the conditions and procedures described in this section. Verification activity may begin at the start of the school year but the final required sample size shall be based on the number of approved applications on file as of October 31. Any extensions to these deadlines must be approved in writing by FNS. School Food Authorities are required to satisfy the verification requirement by using either random sampling or focused sampling as described below. Random sampling consists of verifying a minimum of the lesser of 3 percent or 3,000 applications which are selected by the School Food Authority. Focused sampling consists of selecting and verifying a minimum of: the lesser of 1 percent or 1,000 of total applications selected from non-food stamp households claiming monthly income within \$100 or yearly income within \$1,200 of the income eligibility limit for free or reduced price meals; plus the lesser of one half of 1 percent (.5%) or 500 applications of food stamp, Food Distribution Program on Indian Reservations (FDPIR) or Temporary Assistance for Needy Families (TANF) households that provided a food stamp or TANF case number or FDPIR case number or other FDPIR identifier in lieu of income information. A State may require all School Food Authorities to perform either random or focused sampling. School Food Authorities may choose to verify up to 100 percent of all applications to improve program integrity."

The Food Service Supervisor did not perform the required verifications of free and reduced lunch applications. This could allow children to receive a benefit that they are not eligible for. Also if children are receiving a benefit incorrectly, the District may be losing revenue in Food Service Operations.

We recommend that the Board institute procedures to ensure that the Food Service Supervisor verifies a sample of the District's approved free and reduced price lunch applications using the random or focused sampling techniques described to comply with the above regulation.

We noted that the Lunchroom Supervisor has completed the verifications for fiscal year 2005.



**Auditor of State
Betty Montgomery**

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STRUTHERS CITY SCHOOL DISTRICT

MAHONING 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 28, 2006**