



Mary Taylor, CPA
Auditor of State

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mathews Local School District
Trumbull County
4434-B Warren-Sharon Road
Vienna, OH 44473

To the Board of Education:

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

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

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

As described in Note 3 to the basic financial statements, during the year ended June 30, 2005, the District implemented revisions to the recognition of pension and other postemployment benefit expenditures/expenses and liabilities by cost sharing employers as provided for in Governmental Accounting Standards Board Technical Bulletin 2004-2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

September 25, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of Mathews Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets increased \$203,242. Net assets of governmental activities increased \$194,779, which represents a 5.67% increase from 2004. Net assets of business-type activities increased \$8,463 or 20.59% from 2004.
- General revenues accounted for \$8,157,571 in revenue or 93.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$578,263 or 6.62% of total revenues of \$8,735,834.
- The District had \$8,514,848 in expenses related to governmental activities; only \$578,263 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,157,571 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$7,981,757 in revenues and other financing sources and \$7,880,523 in expenditures and other financing uses. The general fund's fund balance increased from \$741,484 to \$842,718.
- Net assets for the District's two enterprise funds increased \$8,463. The enterprise funds had \$302,949 in revenues, \$320,693 in expenses and \$26,207 in transfers in.

Using these Basic Financial Statements (BFS)

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 is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 2005?" 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 takes 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 District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's food service and uniform school supplies operations are reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 14-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund 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 financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Proprietary Funds

The District maintains proprietary funds. The District maintains two enterprise funds that account for the District's food service and uniform school supplies operations. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 25. 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 26-53 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 2005 compared to fiscal 2004.

| | Net Assets | | | | | |
|---|--------------------------------|---------------------|---------------------------------|--------------------|---------------------|---------------------|
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| <u>Assets</u> | | | | | | |
| Current assets | \$ 7,397,581 | \$ 7,023,800 | \$ 14,931 | \$ 14,531 | \$ 7,412,512 | \$ 7,038,331 |
| Capital assets | <u>3,067,384</u> | <u>3,182,319</u> | <u>11,472</u> | <u>1,431</u> | <u>3,078,856</u> | <u>3,183,750</u> |
| Total assets | <u>10,464,965</u> | <u>10,206,119</u> | <u>26,403</u> | <u>15,962</u> | <u>10,491,368</u> | <u>10,222,081</u> |
| <u>Liabilities</u> | | | | | | |
| Current liabilities | 5,475,205 | 5,352,037 | 28,681 | 19,766 | 5,503,886 | 5,371,803 |
| Long-term liabilities | <u>1,359,371</u> | <u>1,418,472</u> | <u>30,364</u> | <u>37,301</u> | <u>1,389,735</u> | <u>1,455,773</u> |
| Total liabilities | <u>6,834,576</u> | <u>6,770,509</u> | <u>59,045</u> | <u>57,067</u> | <u>6,893,621</u> | <u>6,827,576</u> |
| <u>Net Assets</u> | | | | | | |
| Invested in capital assets, net of debt | 2,975,935 | 2,900,907 | 11,472 | 1,431 | 2,987,407 | 2,902,338 |
| Restricted | 84,274 | 181,305 | - | - | 84,274 | 181,305 |
| Unrestricted (deficit) | <u>570,180</u> | <u>353,398</u> | <u>(44,114)</u> | <u>(42,536)</u> | <u>526,066</u> | <u>310,862</u> |
| Total net assets (deficit) | <u>\$ 3,630,389</u> | <u>\$ 3,435,610</u> | <u>\$ (32,642)</u> | <u>\$ (41,105)</u> | <u>\$ 3,597,747</u> | <u>\$ 3,394,505</u> |

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

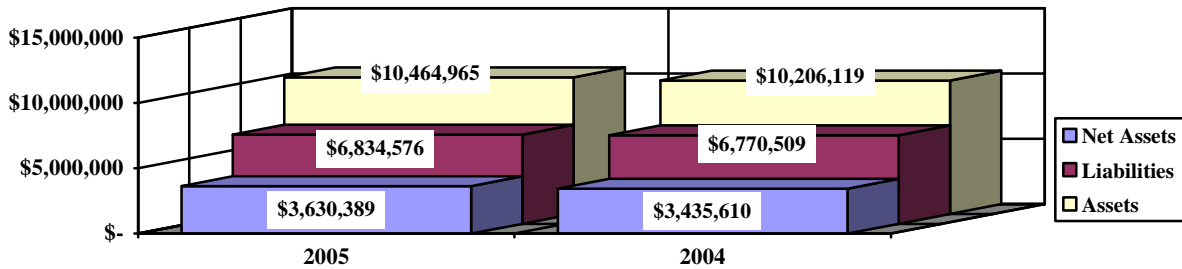
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$3,597,747.

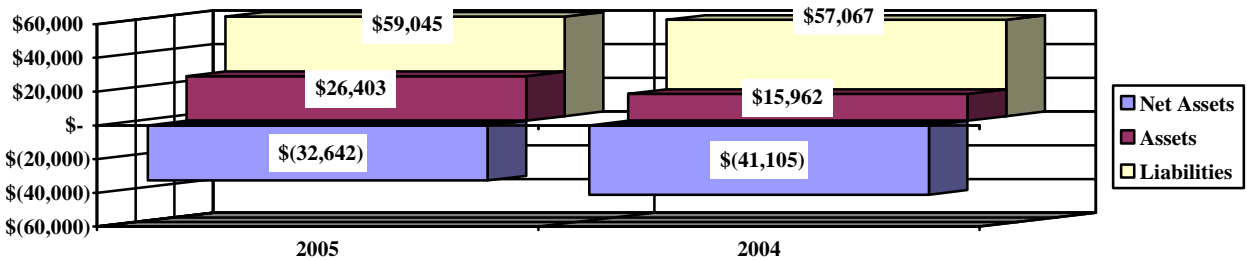
At year-end, capital assets represented 29.57% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2005, was \$2,987,407. These capital 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, \$84,274 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$570,180 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental - Net Assets



Business-Type - Net Assets



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2005 compared to fiscal year 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

| | Change in Net Assets | | | | | |
|---|--------------------------------|---------------------|---------------------------------|--------------------|---------------------|---------------------|
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| <u>Revenues</u> | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 273,516 | \$ 280,106 | \$ 203,954 | \$ 204,943 | \$ 477,470 | \$ 485,049 |
| Operating grants and contributions | 275,365 | 316,255 | 98,995 | 71,774 | 374,360 | 388,029 |
| Capital grants and contributions | 29,382 | 160,410 | - | - | 29,382 | 160,410 |
| General revenues: | | | | | | |
| Property taxes | 4,678,837 | 4,530,916 | - | - | 4,678,837 | 4,530,916 |
| Grants and entitlements | 3,333,173 | 3,374,309 | - | - | 3,333,173 | 3,374,309 |
| Revenue in lieu of taxes | 56,952 | - | - | - | 56,952 | - |
| Investment earnings | 50,868 | 21,064 | - | - | 50,868 | 21,064 |
| Other | 37,741 | 6,973 | - | - | 37,741 | 6,973 |
| Total revenues | <u>8,735,834</u> | <u>8,690,033</u> | <u>302,949</u> | <u>276,717</u> | <u>9,038,783</u> | <u>8,966,750</u> |
| <u>Expenses</u> | | | | | | |
| Program expenses: | | | | | | |
| Instruction: | | | | | | |
| Regular | 4,100,574 | 3,888,734 | - | - | 4,100,574 | 3,888,734 |
| Special | 714,698 | 665,401 | - | - | 714,698 | 665,401 |
| Vocational | 130,063 | 162,676 | - | - | 130,063 | 162,676 |
| Other | - | 3 | - | - | - | 3 |
| Support services: | | | | | | |
| Pupil | 612,621 | 581,480 | - | - | 612,621 | 581,480 |
| Instructional staff | 255,695 | 359,320 | - | - | 255,695 | 359,320 |
| Board of Education | 52,219 | 53,374 | - | - | 52,219 | 53,374 |
| Administration | 636,101 | 624,166 | - | - | 636,101 | 624,166 |
| Fiscal | 295,419 | 318,041 | - | - | 295,419 | 318,041 |
| Operations and maintenance | 877,297 | 856,837 | - | - | 877,297 | 856,837 |
| Pupil transportation | 575,753 | 487,601 | - | - | 575,753 | 487,601 |
| Central | 115,327 | 122,805 | - | - | 115,327 | 122,805 |
| Operation of non-instructional services | 1,326 | - | - | - | 1,326 | - |
| Extracurricular activities | 141,110 | 170,006 | - | - | 141,110 | 170,006 |
| Interest and fiscal charges | 6,645 | 9,115 | - | - | 6,645 | 9,115 |
| Food service | - | - | 297,971 | 266,794 | 297,971 | 266,794 |
| Uniform school supplies | - | - | 22,722 | 21,227 | 22,722 | 21,227 |
| Total expenses | <u>8,514,848</u> | <u>8,299,559</u> | <u>320,693</u> | <u>288,021</u> | <u>8,835,541</u> | <u>8,587,580</u> |
| Excess (deficiency) before transfers | 220,986 | 390,474 | (17,744) | (11,304) | 203,242 | 379,170 |
| Transfers | <u>(26,207)</u> | <u>(25,611)</u> | <u>26,207</u> | <u>25,611</u> | <u>-</u> | <u>-</u> |
| Changes in net assets | 194,779 | 364,863 | 8,463 | 14,307 | 203,242 | 379,170 |
| Net assets (deficit), beginning of year | <u>3,435,610</u> | <u>3,070,747</u> | <u>(41,105)</u> | <u>(55,412)</u> | <u>3,394,505</u> | <u>3,015,335</u> |
| Net assets (deficit), end of year | <u>\$ 3,630,389</u> | <u>\$ 3,435,610</u> | <u>\$ (32,642)</u> | <u>\$ (41,105)</u> | <u>\$ 3,597,747</u> | <u>\$ 3,394,505</u> |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

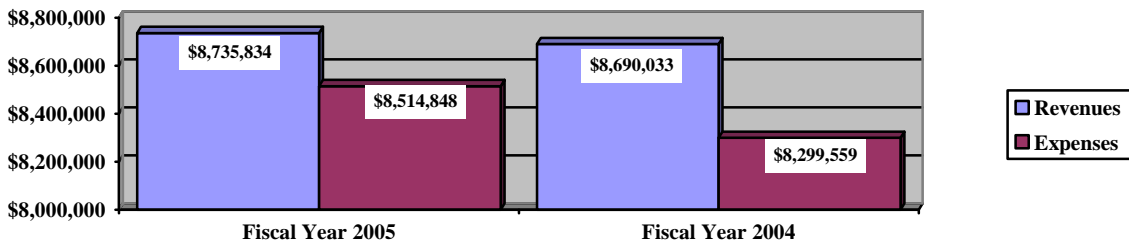
Governmental Activities

Net assets of the District's governmental activities increased by \$194,779. Total governmental expenses of \$8,514,848 were offset by program revenues of \$578,263 and general revenues of \$8,157,571. Program revenues supported 6.79% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 91.71% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

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

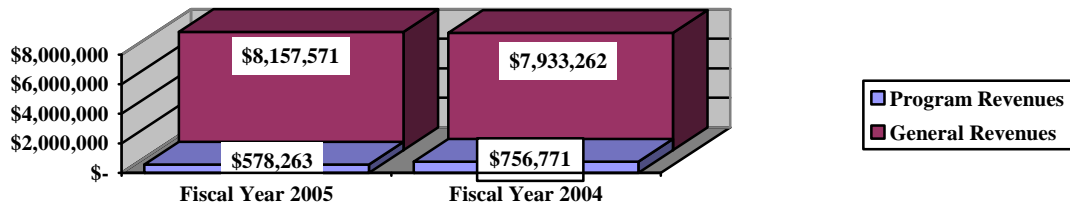
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

| | Governmental Activities | | | |
|---|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | <u>2005</u> | <u>2005</u> | <u>2004</u> | <u>2004</u> |
| Program expenses: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,100,574 | \$ 3,840,779 | \$ 3,888,734 | \$ 3,672,294 |
| Special | 714,698 | 520,614 | 665,401 | 502,311 |
| Vocational | 130,063 | 130,063 | 162,676 | 162,676 |
| Other | - | - | 3 | 3 |
| Support services: | | | | |
| Pupil | 612,621 | 604,771 | 581,480 | 536,436 |
| Instructional staff | 255,695 | 241,109 | 359,320 | 317,488 |
| Board of Education | 52,219 | 52,219 | 53,374 | 53,374 |
| Administration | 636,101 | 636,048 | 624,166 | 623,518 |
| Fiscal | 295,419 | 295,142 | 318,041 | 317,674 |
| Operations and maintenance | 877,297 | 867,174 | 856,837 | 643,899 |
| Pupil transportation | 575,753 | 565,275 | 487,601 | 484,348 |
| Central | 115,327 | 88,490 | 122,805 | 105,917 |
| Operation of non-instructional services | 1,326 | 133 | - | - |
| Extracurricular activities | 141,110 | 88,123 | 170,006 | 113,735 |
| Interest and fiscal charges | <u>6,645</u> | <u>6,645</u> | <u>9,115</u> | <u>9,115</u> |
| Total expenses | <u>\$ 8,514,848</u> | <u>\$ 7,936,585</u> | <u>\$ 8,299,559</u> | <u>\$ 7,542,788</u> |

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 90.82% of 2005 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support is 93.21% in 2005. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include the food service and uniform school supplies operations. These programs had revenues of \$302,949 and expenses of \$320,693 for fiscal year 2005. The District's business activities receive no support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$897,461, which is above last year's total of \$822,068. The fund balances have been restated as described in Note 3.A. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

| | Fund Balance <u>June 30, 2005</u> | Restated Fund Balance <u>June 30, 2004</u> | Increase <u>(Decrease)</u> |
|--------------------|--------------------------------------|--|-------------------------------|
| General | \$ 842,718 | \$ 741,484 | \$ 101,234 |
| Other Governmental | <u>54,743</u> | <u>80,584</u> | <u>(25,841)</u> |
| Total | <u>\$ 897,461</u> | <u>\$ 822,068</u> | <u>\$ 75,393</u> |

General Fund

The District's general fund balance increased by \$101,234, due primarily to a higher increase in revenues than in expenses. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | <u>2005</u> <u>Amount</u> | <u>2004</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 4,323,501 | \$ 4,212,256 | 2.64 % |
| Interest earnings | 50,868 | 20,743 | 145.23 % |
| Intergovernmental | 3,333,173 | 3,374,309 | (1.22) % |
| Other revenues | <u>273,985</u> | <u>175,360</u> | 56.24 % |
| Total | <u>\$ 7,981,527</u> | <u>\$ 7,782,668</u> | 2.56 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 4,543,880 | \$ 4,315,528 | 5.29 % |
| Support services | <u>3,181,653</u> | <u>3,219,232</u> | (1.17) % |
| Total | <u>\$ 7,725,533</u> | <u>\$ 7,534,760</u> | 2.53 % |

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 2005, the District amended its general fund budget numerous times, none significant. For the general fund, final budgeted revenues and other financing sources were \$9,835, above original budget estimates of \$8,029,147. The actual revenues and other financing sources were \$8,085,021, which were \$46,039 more than final budgeted revenues and other financing sources.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

General fund original appropriations (expenditures and other financing uses) of \$8,298,076 were decreased to \$8,095,126 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$7,995,902, which was \$99,224 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,078,856 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The District restated capital assets for the removal of textbooks. Of this total, \$3,067,384 was reported in governmental activities and \$11,472 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---------------------------|--------------------------------|---------------------|---------------------------------|-----------------|---------------------|---------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Land | \$ 363,767 | \$ 363,767 | \$ - | \$ - | \$ 363,767 | \$ 363,767 |
| Land improvements | 347,758 | 377,055 | - | - | 347,758 | 377,055 |
| Building and improvements | 1,653,582 | 1,652,101 | - | - | 1,653,582 | 1,652,101 |
| Furniture and equipment | 486,701 | 519,005 | 11,472 | 1,431 | 498,173 | 520,436 |
| Vehicles | 215,576 | 270,391 | - | - | 215,576 | 270,391 |
| Total | \$ 3,067,384 | \$ 3,182,319 | \$ 11,472 | \$ 1,431 | \$ 3,078,856 | \$ 3,183,750 |

Refer to Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2005 the District had \$212,499 in capital lease obligations and an asbestos loan outstanding. Of this total, \$71,961 is due within one year and \$140,538 is due within greater than one year. The following table summarizes the lease obligations and loan outstanding.

Outstanding Debt, at Year End

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2004</u> |
|--------------------------|---|---|
| Capital lease obligation | \$ 121,000 | \$ 177,000 |
| Asbestos loan | 91,449 | 104,410 |
| Total | \$ 212,449 | \$ 281,410 |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

At June 30, 2005 the District's overall legal debt margin was \$12,613,394 with an unvoted debt margin of \$140,149.

See Note 10 to the basic financial statements for detail on the District's long-term obligations.

Current Financial Related Activities

The Mathews Local School District faces serious financial challenges in the future. The District has relatively flat-lined revenue and rising expenditures. Now, the District's revenue base is being further challenged.

The Ohio Legislature has made several significant changes impacting local taxes:

H.B. 66, adopted in June 2005, phases out all tangible personal property tax revenue by 2010. The State will fully reimburse the District for losses from this action through 2010. Then, beginning in 2011 through 2018, the reimbursement amounts will be phased out.

H.B. 283, adopted in 1999, phased out the tax on inventory property at a rate of 1% per year over a 25-year period. Amended H.B. 95, adopted in 2003, accelerated the phase out of the inventory tax beginning in 2005 and increased the reduction to 2% per year until the tax is completely eliminated. Neither H.B. 283 nor H.B. 95 contains provisions for reimbursement to school districts for this lost revenue.

H.B. 95 also phased on the \$10,000 tangible personal property tax exemption reimbursement over ten years beginning in 2003.

Effective January 1, 2001, electric and gas utilities were deregulated. School districts will be reimbursed for this lost revenue for five years. This reimbursement ends September 2007.

Local business Delphi Corporation filed for Chapter 11 bankruptcy reorganization on October 8, 2005. It is too early to predict the financial impact of this action on the District.

ATD Corporation filed Chapter 11 papers in 2002. To date, the total real estate tax loss to the District from that bankruptcy is \$657,250. With a bankruptcy settlement, real estate taxes will be paid first when the property is sold.

The District's tax base continued to grow over the past year. The total assessed value went from \$136.8 million in 2004 to \$140.1 million in 2005, an increase of approximately 2.4 percent. Residential property and farms contribute over 78 percent of the District's valuation.

In May 2005, the voters approved a 7.9 mill replacement and decrease current expense levy with a 53% affirmative vote. This levy replaces the 8.7 mill levy that was approved by the voters in November 1999. It will generate approximately \$1,107,000 per year effective January 2006.

The Mathews Local School District became a "guarantee" district in fiscal year 2000. A guarantee district receives additional State Foundation aid on top of the current year's calculated amount to bring the district up to the fiscal year 1998 funding level. The current year's calculated amount of State aid is based on the number of pupils times the per pupil amount times the State share. The State share is determined by the property valuation of the District. A higher property valuation equals a lower State share. Because Mathews' student population has declined since 1999 and the property value of the District has risen, the calculated amount of State aid has also declined. The Ohio Department of Education estimates that the District will receive \$585,200 in additional State aid in 2006 due to the guarantee. The State legislature decides with every biennial budget whether they will continue the guarantee.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

In March 1997, the Ohio Supreme Court found that the State of Ohio's educational funding system was unconstitutional. The system was found to be neither "adequate" nor "equitable." The Ohio Supreme Court has reaffirmed its earlier decision several times since. At this time, the District is unable to determine what effect a "fixed" State educational funding system will have on its financial operations.

The District realizes that prudent management will be necessary to continue to provide the resources necessary to meet student needs while diligently controlling the escalating expenditures.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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: Ms. Teri Andrika, Treasurer, Mathews Local School District, 4434-B Warren Sharon Road, Vienna, Ohio, 44473-9644.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents. . . | \$ 1,779,111 | \$ - | \$ 1,779,111 |
| Receivables: | | | |
| Taxes | 5,531,549 | - | 5,531,549 |
| Accounts | 2,596 | 16 | 2,612 |
| Intergovernmental | - | 9,016 | 9,016 |
| Accrued interest | 9,721 | - | 9,721 |
| Prepayments | 37,720 | - | 37,720 |
| Materials and supplies inventory | 36,884 | 5,899 | 42,783 |
| Capital assets: | | | |
| Land | 363,767 | - | 363,767 |
| Depreciable capital assets, net | 2,703,617 | 11,472 | 2,715,089 |
| Total capital assets, net. | <u>3,067,384</u> | <u>11,472</u> | <u>3,078,856</u> |
| Total assets | <u>10,464,965</u> | <u>26,403</u> | <u>10,491,368</u> |
| Liabilities: | | | |
| Accounts payable. | 19,901 | - | 19,901 |
| Accrued wages and benefits | 618,957 | 14,294 | 633,251 |
| Pension obligation payable. | 180,794 | 12,984 | 193,778 |
| Intergovernmental payable | 53,537 | 1,403 | 54,940 |
| Deferred revenue | 4,602,016 | - | 4,602,016 |
| Long-term liabilities: | | | |
| Due within one year. | 122,380 | - | 122,380 |
| Due in more than one year | 1,236,991 | 30,364 | 1,267,355 |
| Total liabilities | <u>6,834,576</u> | <u>59,045</u> | <u>6,893,621</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt. | 2,975,935 | 11,472 | 2,987,407 |
| Restricted for: | | | |
| Capital projects | 55,523 | - | 55,523 |
| State funded programs. | 2,451 | - | 2,451 |
| Student activities. | 3,843 | - | 3,843 |
| Other purposes | 22,457 | - | 22,457 |
| Unrestricted (deficit) | <u>570,180</u> | <u>(44,114)</u> | <u>526,066</u> |
| Total net assets (deficit) | <u>\$ 3,630,389</u> | <u>\$ (32,642)</u> | <u>\$ 3,597,747</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Expenses | Program Revenues | | |
|--|---------------------|--------------------------------|------------------------------------|----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,100,574 | \$ 208,842 | \$ 50,953 | \$ - |
| Special | 714,698 | - | 194,084 | - |
| Vocational | 130,063 | - | - | - |
| Support services: | | | | |
| Pupil | 612,621 | - | 7,449 | 401 |
| Instructional staff | 255,695 | 8,707 | 5,879 | - |
| Board of education | 52,219 | - | - | - |
| Administration | 636,101 | - | - | 53 |
| Fiscal | 295,419 | - | - | 277 |
| Operations and maintenance | 877,297 | 288 | - | 9,835 |
| Pupil transportation | 575,753 | 3,520 | - | 6,958 |
| Central | 115,327 | - | 17,000 | 9,837 |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | 1,326 | - | - | 1,193 |
| Extracurricular activities | 141,110 | 52,159 | - | 828 |
| Interest and fiscal charges | 6,645 | - | - | - |
| Total governmental activities | <u>8,514,848</u> | <u>273,516</u> | <u>275,365</u> | <u>29,382</u> |
| Business-type activities: | | | | |
| Food service | 297,971 | 184,073 | 98,995 | - |
| Uniform school supplies | 22,722 | 19,881 | - | - |
| Total business-type activities | <u>320,693</u> | <u>203,954</u> | <u>98,995</u> | <u>-</u> |
| Totals | <u>\$ 8,835,541</u> | <u>\$ 477,470</u> | <u>\$ 374,360</u> | <u>\$ 29,382</u> |

General Revenues:

| |
|---|
| Property taxes levied for: |
| General purposes |
| Capital projects |
| Grants and entitlements not restricted to specific programs |
| Investment earnings |
| Revenue in lieu of taxes |
| Miscellaneous |
| Total general revenues |
| Transfers |
| Total general revenues and transfers |
| Change in net assets |
| Net assets (deficit) at beginning of year (restated) |
| Net assets (deficit) at end of year |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and
Changes in Net Assets**

| Governmental Activities | Business-Type Activities | Total |
|------------------------------------|-------------------------------------|---------------------|
| \$ (3,840,779) | \$ - | \$ (3,840,779) |
| (520,614) | - | (520,614) |
| (130,063) | - | (130,063) |
| (604,771) | - | (604,771) |
| (241,109) | - | (241,109) |
| (52,219) | - | (52,219) |
| (636,048) | - | (636,048) |
| (295,142) | - | (295,142) |
| (867,174) | - | (867,174) |
| (565,275) | - | (565,275) |
| (88,490) | - | (88,490) |
| (133) | - | (133) |
| (88,123) | - | (88,123) |
| (6,645) | - | (6,645) |
| <u>(7,936,585)</u> | <u>-</u> | <u>(7,936,585)</u> |
| - | (14,903) | (14,903) |
| - | (2,841) | (2,841) |
| - | (17,744) | (17,744) |
| <u>(7,936,585)</u> | <u>(17,744)</u> | <u>(7,954,329)</u> |
| 4,519,198 | - | 4,519,198 |
| 159,639 | - | 159,639 |
| 3,333,173 | - | 3,333,173 |
| 50,868 | - | 50,868 |
| 56,952 | - | 56,952 |
| 37,741 | - | 37,741 |
| <u>8,157,571</u> | <u>-</u> | <u>8,157,571</u> |
| (26,207) | 26,207 | - |
| <u>8,131,364</u> | <u>26,207</u> | <u>8,157,571</u> |
| 194,779 | 8,463 | 203,242 |
| <u>3,435,610</u> | <u>(41,105)</u> | <u>3,394,505</u> |
| <u>\$ 3,630,389</u> | <u>\$ (32,642)</u> | <u>\$ 3,597,747</u> |

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 1,657,690 | \$ 98,964 | \$ 1,756,654 |
| Receivables: | | | |
| Taxes | 5,346,936 | 184,613 | 5,531,549 |
| Accounts | 2,596 | - | 2,596 |
| Accrued interest | 9,721 | - | 9,721 |
| Prepayments | 37,720 | - | 37,720 |
| Materials and supplies inventory | 36,884 | - | 36,884 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | 22,457 | - | 22,457 |
| Total assets | \$ 7,114,004 | \$ 283,577 | \$ 7,397,581 |
| Liabilities: | | | |
| Accounts payable | \$ 11,528 | \$ 8,373 | \$ 19,901 |
| Accrued wages and benefits | 615,496 | 3,461 | 618,957 |
| Compensated absences payable | 27,625 | 26,903 | 54,528 |
| Pension obligation payable. | 176,774 | 4,020 | 180,794 |
| Intergovernmental payable. | 51,809 | 1,728 | 53,537 |
| Deferred revenue. | 5,388,054 | 184,349 | 5,572,403 |
| Total liabilities | 6,271,286 | 228,834 | 6,500,120 |
| Fund Balances: | | | |
| Reserved for encumbrances | 49,560 | 15,672 | 65,232 |
| Reserved for materials and supplies inventory. | 36,884 | - | 36,884 |
| Reserved for prepayments | 37,720 | - | 37,720 |
| Reserved for property tax unavailable for appropriation | 7,596 | 264 | 7,860 |
| Reserved for school bus purchases. | 10,415 | - | 10,415 |
| Reserved for budget stabilization | 12,042 | - | 12,042 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 688,501 | - | 688,501 |
| Special revenue funds. | - | 31,575 | 31,575 |
| Capital projects funds. | - | 7,232 | 7,232 |
| Total fund balances | 842,718 | 54,743 | 897,461 |
| Total liabilities and fund balances | \$ 7,114,004 | \$ 283,577 | \$ 7,397,581 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

| | | |
|--|------------|---------------------|
| Total governmental fund balances | | \$ 897,461 |
| <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. | | 3,067,384 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 970,387 | |
| Total | | 970,387 |
| Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | 1,092,394 | |
| Asbestos loan payable | 91,449 | |
| Capital lease obligation | 121,000 | |
| Total | | (1,304,843) |
| Net assets of governmental activities | | \$ 3,630,389 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 4,323,501 | \$ 152,861 | \$ 4,476,362 |
| Tuition. | 164,589 | - | 164,589 |
| Earnings on investments. | 50,868 | - | 50,868 |
| Classroom materials and fees | 9,298 | - | 9,298 |
| Extracurricular. | - | 93,244 | 93,244 |
| Other local revenues. | 100,098 | 750 | 100,848 |
| Intergovernmental - State. | 3,315,200 | 81,825 | 3,397,025 |
| Intergovernmental - Federal | 17,973 | 223,839 | 241,812 |
| Total revenue | <u>7,981,527</u> | <u>552,519</u> | <u>8,534,046</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 3,909,933 | 93,400 | 4,003,333 |
| Special. | 513,380 | 194,305 | 707,685 |
| Vocational. | 120,569 | - | 120,569 |
| Support services: | | | |
| Pupil. | 596,524 | 11,268 | 607,792 |
| Instructional staff | 250,978 | 13,776 | 264,754 |
| Board of education | 52,219 | - | 52,219 |
| Administration. | 627,012 | 499 | 627,511 |
| Fiscal | 288,542 | 2,602 | 291,144 |
| Operations and maintenance. | 757,418 | 110,944 | 868,362 |
| Pupil transportation | 519,500 | 6,303 | 525,803 |
| Central. | 89,458 | 28,344 | 117,802 |
| Operation of non-instructional services: | | | |
| Other non-instructional services. | - | 11,200 | 11,200 |
| Extracurricular activities. | - | 168,770 | 168,770 |
| Debt service: | | | |
| Principal retirement | - | 68,961 | 68,961 |
| Interest and fiscal charges | - | 6,645 | 6,645 |
| Total expenditures | <u>7,725,533</u> | <u>717,017</u> | <u>8,442,550</u> |
| Excess of revenues over (under) expenditures | <u>255,994</u> | <u>(164,498)</u> | <u>91,496</u> |
| Other financing sources (uses): | | | |
| Transfers in | - | 138,657 | 138,657 |
| Transfers (out). | (154,990) | - | (154,990) |
| Proceeds from sale of capital assets. | 230 | - | 230 |
| Total other financing sources (uses) | <u>(154,760)</u> | <u>138,657</u> | <u>(16,103)</u> |
| Net change in fund balances | 101,234 | (25,841) | 75,393 |
| Fund balances at beginning of year (restated). | <u>741,484</u> | <u>80,584</u> | <u>822,068</u> |
| Fund balances at end of year. | <u>\$ 842,718</u> | <u>\$ 54,743</u> | <u>\$ 897,461</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | | |
|--|-----------|----------------|
| Net change in fund balances - total governmental funds | \$ | 75,393 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceed capital outlay in the current period. | | |
| Capital asset additions | 104,388 | |
| Current year depreciation | (219,323) | |
| Total | | (114,935) |
| Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Taxes | 202,475 | |
| Intergovernmental revenue | (917) | |
| Total | | 201,558 |
| Repayment of 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. | | |
| | | 68,961 |
| Some expenses reported on 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. | | |
| | | (36,198) |
| Change in net assets of governmental activities | \$ | 194,779 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 4,347,776 | \$ 4,353,102 | \$ 4,339,519 | \$ (13,583) |
| Tuition. | 154,410 | 154,599 | 164,589 | 9,990 |
| Earnings on investments. | 39,951 | 40,000 | 42,376 | 2,376 |
| Classroom materials and fees | 8,739 | 8,750 | 9,300 | 550 |
| Other local revenues | 64,423 | 64,502 | 64,611 | 109 |
| Intergovernmental - State | 3,298,758 | 3,302,799 | 3,315,200 | 12,401 |
| Intergovernmental - Federal. | 17,878 | 17,900 | 17,973 | 73 |
| Total revenue | <u>7,931,935</u> | <u>7,941,652</u> | <u>7,953,568</u> | <u>11,916</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,991,548 | 3,893,925 | 3,846,195 | 47,730 |
| Special. | 531,652 | 518,649 | 512,292 | 6,357 |
| Vocational. | 128,106 | 124,973 | 123,441 | 1,532 |
| Support services: | | | | |
| Pupil. | 607,237 | 592,386 | 585,125 | 7,261 |
| Instructional staff | 275,713 | 268,970 | 265,673 | 3,297 |
| Board of education | 61,232 | 59,734 | 59,001 | 733 |
| Administration. | 642,309 | 626,600 | 618,920 | 7,680 |
| Fiscal | 298,177 | 290,884 | 287,319 | 3,565 |
| Operations and maintenance. | 829,640 | 809,349 | 799,429 | 9,920 |
| Pupil transportation | 542,041 | 528,784 | 522,303 | 6,481 |
| Central. | 95,618 | 93,279 | 92,136 | 1,143 |
| Total expenditures | <u>8,003,273</u> | <u>7,807,533</u> | <u>7,711,834</u> | <u>95,699</u> |
| Excess of revenues over (under) expenditures. | <u>(71,338)</u> | <u>134,119</u> | <u>241,734</u> | <u>107,615</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure. | 24,071 | 24,100 | 27,287 | 3,187 |
| Transfers (out) | (189,015) | (184,392) | (182,132) | 2,260 |
| Advances in. | 72,911 | 73,000 | 103,936 | 30,936 |
| Advances (out) | (105,788) | (103,201) | (101,936) | 1,265 |
| Proceeds from sale of capital assets. | 230 | 230 | 230 | - |
| Total other financing sources (uses) | <u>(197,591)</u> | <u>(190,263)</u> | <u>(152,615)</u> | <u>37,648</u> |
| Net change in fund balance | (268,929) | (56,144) | 89,119 | 145,263 |
| Fund balance at beginning of year. | 1,455,668 | 1,455,668 | 1,455,668 | - |
| Prior year encumbrances appropriated | 74,286 | 74,286 | 74,286 | - |
| Fund balance at end of year | <u>\$ 1,261,025</u> | <u>\$ 1,473,810</u> | <u>\$ 1,619,073</u> | <u>\$ 145,263</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

| | Business-Type Activities |
|--|-------------------------------------|
| | Enterprise Funds |
| Assets: | |
| Current assets: | |
| Receivables: | |
| Accounts | \$ 16 |
| Intergovernmental | 9,016 |
| Materials and supplies inventory | 5,899 |
| | 14,931 |
| Total current assets | |
| Noncurrent assets: | |
| Capital assets, net | 11,472 |
| | 26,403 |
| Total assets | |
| Liabilities: | |
| Current liabilities: | |
| Accrued wages and benefits | 14,294 |
| Pension obligation payable. | 12,984 |
| Intergovernmental payable | 1,403 |
| | 28,681 |
| Total current liabilities | |
| Long-term liabilities: | |
| Compensated absences. | 30,364 |
| | 59,045 |
| Total liabilities. | |
| Net assets: | |
| Invested in capital assets | 11,472 |
| Unrestricted (deficit) | (44,114) |
| | \$ (32,642) |
| Total net assets (deficit) | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Business-Type Activities |
|--|-------------------------------------|
| | Enterprise Funds |
| Operating revenues: | |
| Tuition and fees. | \$ 19,881 |
| Sales/charges for services. | 184,073 |
| | 203,954 |
| Operating expenses: | |
| Personal services. | 160,407 |
| Purchased services. | 12,724 |
| Materials and supplies | 48,550 |
| Cost of Sales | 98,600 |
| Depreciation | 412 |
| | 320,693 |
| Total operating expenses. | 320,693 |
| Operating loss | (116,739) |
| Nonoperating revenues: | |
| Federal donated commodities | 26,222 |
| Grants and subsidies. | 72,773 |
| | 98,995 |
| Total nonoperating revenues. | 98,995 |
| Loss before transfers and capital contributions | (17,744) |
| Transfer in | 16,333 |
| Capital contributions. | 9,874 |
| | 8,463 |
| Change in net assets | 8,463 |
| Net assets (deficit) at beginning of year . . | (41,105) |
| Net assets (deficit) at end of year. | \$ (32,642) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Business-Type Activities |
|---|-------------------------------------|
| | Enterprise Funds |
| Cash flows from operating activities: | |
| Cash received from tuition and fees | \$ 19,867 |
| Cash received from sales/charges for services. | 184,071 |
| Cash payments for personal services. | (157,815) |
| Cash payments for contractual services | (12,724) |
| Cash payments for materials and supplies | (121,772) |
| Cash payments for other expenses | (614) |
| Net cash used in operating activities | (88,987) |
| Cash flows from noncapital financing activities: | |
| Cash received from grants and subsidies | 72,164 |
| Cash received from transfers in | 16,333 |
| Net cash provided by noncapital financing activities. | 88,497 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (10,453) |
| Capital contributions. | 9,874 |
| Net cash used in capital and related financing activities. | (579) |
| Net decrease in cash and cash equivalents | (1,069) |
| Cash and cash equivalents at beginning of year . . . | 1,069 |
| Cash and cash equivalents at end of year. | \$ - |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (116,739) |
| Adjustments: | |
| Depreciation. | 412 |
| Federal donated commodities | 26,222 |
| Changes in assets and liabilities: | |
| Increase in materials and supplies inventory | (844) |
| Increase in accounts receivable | (16) |
| Decrease in accounts payable | (760) |
| Decrease in accrued wages and benefits. | (2,536) |
| Increase in intergovernmental payable | 287 |
| Decrease in compensated absences payable. | (6,937) |
| Increase in pension obligation payable | 11,924 |
| Net cash used in operating activities | \$ (88,987) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

| | Agency |
|---|---------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 34,399 |
| Receivables: | |
| Accounts | 1,695 |
| Total assets. | \$ 36,094 |
| Liabilities: | |
| Accounts payable. | \$ 160 |
| Due to students | 35,934 |
| Total liabilities | \$ 36,094 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Mathews Local School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and federal guidelines. This Board of Education controls the District's four instructional/support facilities staffed by 47 classified employees, and 74 certified full-time who provide services to 879 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, 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 government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Trumbull County Career and Technical Center

The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio. The Center is operated under the direction of a Board, consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Trumbull County Joint Vocational School, Gary Ghizzoni, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

North East Ohio Management Information Network (NEOMIN)

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

The Governing Board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The District was not represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. NEOIMC was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member school districts. Each member pays a monthly premium based on use of the media materials.

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

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

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

NEO/SERRC is governed by a governing board of 39 members, comprised of the 35 superintendents of the participating districts, one non-public school representative, one county board of mental retardation representative, and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information is available from the Mahoning County Educational Service Center (fiscal agent), 2801 Market Street, Youngstown, Ohio 44507.

Region 12 Professional Development Center (Center)

The Center is a jointly governed organization among the school districts located in Trumbull, Mahoning, and Columbiana Counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a governing board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the OSP to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Trumbull County Schools Insurance Consortium

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

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus 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.

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; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds are classified as either enterprise or internal service. The District has no internal service funds. The following are the District's proprietary funds:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

Uniform School Supplies Fund - This fund accounts for the purchase and sale of school supplies for use in the District. Profits derived from such sales are used for school purposes or activities connected with the school.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: 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 has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

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 enterprise funds are sales for food services and charges for services for uniform school supplies. Operating expenses for the enterprise funds are personnel costs and purchased services. 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 on the fund financial statements. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

All funds other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Budgetary modifications at this level require a resolution of the Board of Education. The treasurer has been given authority to allocate Board appropriations to the function and object level within each fund.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2005 amounted to \$50,868 which includes \$4,722 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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 received. Inventories are accounted for using the consumption method.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$300. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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> | <u>Governmental Activities Estimated Lives</u> | <u>Business-Type Activities Estimated Lives</u> |
|----------------------------|--|---|
| Land improvements | 20 years | N/A |
| Buildings and improvements | 99 years | N/A |
| Furniture/equipment | 5 - 20 years | 20 years |
| Vehicles | 10 years | N/A |

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 the balance sheet date 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 10 years of service at any age 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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations 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 and long-term loans are recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be restricted for school bus purchases. See Note 16 for details.

Q. Operating Revenues and Expenses

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

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

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

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

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

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the District as they were previously reported as of June 30, 2004:

| | <u>General</u> | <u>Governmental</u> | <u>Total</u> |
|--------------------------------------|-------------------|---------------------|-------------------|
| Fund Balances, June 30, 2004 | \$ 798,597 | \$ 82,848 | \$ 881,445 |
| GASB Technical Bulletin No. 2004-2 | <u>(57,113)</u> | <u>(2,264)</u> | <u>(59,377)</u> |
| Restated Fund Balance, June 30, 2004 | <u>\$ 741,484</u> | <u>\$ 80,584</u> | <u>\$ 822,068</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Prior Period Adjustment

Beginning net assets have been restated due to the removal of textbooks from capital assets.

| | |
|---------------------------------------|---------------------|
| Net assets June 30, 2004 | \$ 3,567,552 |
| Textbooks | (738,684) |
| Accumulated depreciation on textbooks | <u>606,742</u> |
| Net assets July 1, 2004 | <u>\$ 3,435,610</u> |

C. Deficit Fund Balances

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

Nonmajor Governmental Funds

| | |
|--|-------|
| Education Management Information Systems | \$ 55 |
| Disadvantaged Pupil Impact Aid | 78 |
| Ohio Reads | 66 |
| Summer Intervention | 128 |
| Title VI | 31 |
| Title II-A | 206 |

Nonmajor Proprietary Funds

| | |
|--------------|--------|
| Food service | 32,656 |
|--------------|--------|

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$231,415. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$100,000 of the District's bank balance of \$261,389 was exposed to custodial risk as discussed below, while \$161,389 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Balance at</u> | <u>Investment Maturities</u> |
|------------------------|---------------------|-----------------------------------|
| | <u>Fair Value</u> | <u>6 months or</u> <u>less</u> |
| STAR Ohio | <u>\$ 1,582,095</u> | <u>\$ 1,582,095</u> |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|------------------------|--------------------|-------------------|
| STAR Ohio | <u>\$1,582,095</u> | <u>100.00%</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

| | |
|---|---------------------|
| <u>Cash and Investments per footnote</u> | |
| Carrying amount of deposits | \$ 231,415 |
| Investments | <u>1,582,095</u> |
| Total | <u>\$ 1,813,510</u> |
| <u>Cash and investments per Statement of Net Assets</u> | |
| Governmental activities | \$ 1,779,111 |
| Agency funds | <u>34,399</u> |
| Total | <u>\$ 1,813,510</u> |

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

| | |
|---------------------------------|---------------|
| | <u>Amount</u> |
| Transfers from general fund to: | |
| Nonmajor governmental funds | \$ 138,657 |
| Enterprise funds | 16,333 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, only transfers between governmental funds and enterprise funds are reported on the statement of activities.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 - PROPERTY TAXES - (Continued)

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$7,596 in the general fund and \$264 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$23,641 in the general fund and \$822 in the Permanent Improvement capital projects fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second Half Collections | | 2005 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 122,892,240 | 89.84 | \$ 124,670,480 | 88.95 |
| Public Utility Personal | 5,919,320 | 4.33 | 6,074,300 | 4.34 |
| Tangible Personal Property | <u>7,974,510</u> | <u>5.83</u> | <u>9,404,044</u> | <u>6.71</u> |
| Total | <u>\$ 136,786,070</u> | <u>100.00</u> | <u>\$ 140,148,824</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$ 58.18 | | \$ 55.26 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, 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 - current and delinquent | \$ 5,531,549 |
| Accounts | 2,596 |
| Accrued interest | 9,721 |

Business-type Activities

| | |
|-------------------|---------------------|
| Accounts | 16 |
| Intergovernmental | <u>9,016</u> |
| Total receivables | <u>\$ 5,552,898</u> |

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

The capital asset balances of the governmental activities have been restated due to the removal of textbooks as capital assets. See Note 3.B. for detail:

| | <u>Balance 06/30/04</u> | <u>Adjustments</u> | <u>Restated Balance 06/30/04</u> |
|---|-----------------------------|---------------------|--|
| Governmental Activities | | | |
| Capital assets, not being depreciated: | | | |
| Land | \$ 363,767 | \$ - | \$ 363,767 |
| Total capital assets, not being depreciated | <u>363,767</u> | <u>-</u> | <u>363,767</u> |
| Capital assets, being depreciated: | | | |
| Land improvements | 667,382 | - | 667,382 |
| Building/improvements | 2,299,854 | - | 2,299,854 |
| Furniture/equipment | 1,339,532 | - | 1,339,532 |
| Vehicles | 665,205 | - | 665,205 |
| Textbooks | <u>738,684</u> | <u>(738,684)</u> | <u>-</u> |
| Total capital assets, being depreciated | <u>5,710,657</u> | <u>(738,684)</u> | <u>4,971,973</u> |
| Less: accumulated depreciation | | | |
| Land improvements | (290,327) | - | (290,327) |
| Building/improvements | (647,753) | - | (647,753) |
| Furniture/equipment | (820,527) | - | (820,527) |
| Vehicles | (394,814) | - | (394,814) |
| Textbooks | <u>(606,742)</u> | <u>606,742</u> | <u>-</u> |
| Total accumulated depreciation | <u>(2,760,163)</u> | <u>606,742</u> | <u>(2,153,421)</u> |
| Governmental activities capital assets, net | <u>\$ 3,314,261</u> | <u>\$ (131,942)</u> | <u>\$ 3,182,319</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

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

| | Restated Balance <u>June 30, 2004</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>June 30, 2005</u> |
|--|---|---------------------|-------------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 363,767 | \$ - | \$ - | \$ 363,767 |
| Total capital assets, not being depreciated | <u>363,767</u> | <u>-</u> | <u>-</u> | <u>363,767</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 667,382 | - | - | 667,382 |
| Building/improvements | 2,299,854 | 24,745 | - | 2,324,599 |
| Furniture/equipment | 1,339,532 | 79,643 | (4,834) | 1,414,341 |
| Vehicles | <u>665,205</u> | <u>-</u> | <u>(30,787)</u> | <u>634,418</u> |
| Total capital assets, being depreciated | <u>4,971,973</u> | <u>104,388</u> | <u>(35,621)</u> | <u>5,040,740</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (290,327) | (29,297) | - | (319,624) |
| Building/improvements | (647,753) | (23,264) | - | (671,017) |
| Furniture/equipment | (820,527) | (111,947) | 4,834 | (927,640) |
| Vehicles | <u>(394,814)</u> | <u>(54,815)</u> | <u>30,787</u> | <u>(418,842)</u> |
| Total accumulated depreciation | <u>(2,153,421)</u> | <u>(219,323)</u> | <u>35,621</u> | <u>(2,337,123)</u> |
| Governmental activities capital assets, net | <u>\$ 3,182,319</u> | <u>\$ (114,935)</u> | <u>\$ -</u> | <u>\$ 3,067,384</u> |
| Business-Type Activities | | | | |
| Capital assets, being depreciated: | | | | |
| Furniture/equipment | \$ 70,375 | \$ 10,903 | \$ (6,892) | \$ 74,386 |
| Less: accumulated depreciation | <u>(68,944)</u> | <u>(412)</u> | <u>6,442</u> | <u>(62,914)</u> |
| Business-type activities capital assets, net | <u>\$ 1,431</u> | <u>\$ 10,491</u> | <u>\$ (450)</u> | <u>\$ 11,472</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| Instruction: | |
| Regular | \$ 86,848 |
| Special | 4,971 |
| Vocational | 5,109 |
| Support Services: | |
| Pupil | 2,482 |
| Instructional staff | 20,452 |
| Administration | 6,435 |
| Fiscal | 1,551 |
| Operations and maintenance | 24,101 |
| Pupil transportation | 53,638 |
| Central | 8,396 |
| Extracurricular | <u>5,340</u> |
| Total depreciation expense | <u>\$ 219,323</u> |

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of a bus garage. These leases meet the criteria of a 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 at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of a bus garage building have been capitalized in the amount of \$121,000. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2005 fiscal year totaled \$56,000 and \$6,645, respectively. These amounts are reported as debt service payments in the Permanent Improvement nonmajor capital projects fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

| Year Ending <u>June 30</u> | <u>Amount</u> |
|---|-------------------|
| 2006 | \$ 63,063 |
| 2007 | <u>63,369</u> |
| Total minimum lease payment | 126,432 |
| Less: amount representing interest | <u>(5,432)</u> |
| Present value of minimum lease payments | <u>\$ 121,000</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

A. The changes in the District's long-term obligations during fiscal year 2005 were as follows:

| | <u>Balance</u> <u>June 30, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2005</u> | <u>Amounts</u> <u>Due in</u> <u>One Year</u> |
|--|--|------------------|---------------------|--|--|
| <u>Governmental-Type Activities</u> | | | | | |
| 1993 EPA Asbestos Loan 0% | \$ 104,410 | \$ - | \$ (12,961) | \$ 91,449 | \$ 12,961 |
| Capital leases | 177,000 | - | (56,000) | 121,000 | 59,000 |
| Compensated absences | <u>1,137,062</u> | <u>85,010</u> | <u>(75,150)</u> | <u>1,146,922</u> | <u>50,419</u> |
| Total governmental long-term activities | <u>\$ 1,418,472</u> | <u>\$ 85,010</u> | <u>\$ (144,111)</u> | <u>\$ 1,359,371</u> | <u>\$ 122,380</u> |
| <u>Business-Type Activities</u> | | | | | |
| Compensated absences | <u>\$ 37,301</u> | <u>\$ -</u> | <u>\$ (6,937)</u> | <u>\$ 30,364</u> | <u>\$ -</u> |

EPA Asbestos Loan - On April 16, 1993, Mathews Local School District obtained a loan in the amount of \$233,300 for the purpose of providing asbestos removal for the District. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2013. The loan will be paid from the permanent improvement fund.

Capital leases will be paid from the general fund and compensated absences will be paid by the terminations benefits fund.

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

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Principal</u> |
|---|------------------|
| 2006 | \$ 12,961 |
| 2007 | 12,961 |
| 2008 | 12,961 |
| 2009 | 12,961 |
| 2010 | 12,961 |
| 2011-2013 | <u>26,644</u> |
| Total | <u>\$ 91,449</u> |

B. 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, 2005 are a voted debt margin of \$12,613,394 an unvoted debt margin of \$140,149.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. The District pays this annual premium to the OSP. Coverage's provided with Indiana Insurance and through the Ohio School Plan is as follows:

| <u>Coverage</u> | <u>Amount</u> |
|---|---------------|
| Coverage provided by Indiana Insurance: | |
| Building and contents-replacement cost (\$1,000 deductible) | \$16,629,293 |
| Money and securities/in and out (\$500 deductible) | 10,000 |
| Automobile liability (\$250 deductible on comprehensive) (\$500 deductible on collision) | 2,000,000 |
| Auto medical payments | 5,000 |
| Uninsured/under insured motorists | 250,000 |
| Coverage provided by Ace/Temple Re-Insurance: | |
| General liability | |
| Per occurrence (no deductible) | 1,000,000 |
| Total per year | 3,000,000 |
| Employers liability (no deductible) | |
| Per occurrence | 1,000,000 |
| Educational legal liability | |
| Per occurrence (\$2,500 deductible) | 1,000,000 |
| Total per year | 2,000,000 |

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

B. Worker's Compensation

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the group. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Total savings are then calculated and each participants performance is compare to the overall savings percentage of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

For fiscal 2005, the District contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. Mathews Local School Districts pays a monthly contribution, which is a common fund from which claim 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.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$151,630, \$149,198 and \$85,439 respectively; 46.41% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$81,264 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 2005 and 2004, 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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$534,766, \$531,742, and \$464,536, respectively; 83.04% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$90,692 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$101 made by the District and \$407 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$38,198 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), 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 fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. 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 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$52,733 during the 2005 fiscal year.

NOTE 14 - 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 (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are 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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

(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 | \$ 89,119 |
| Net adjustment for revenue accruals | 27,959 |
| Net adjustment for expenditure accruals | (74,773) |
| Net adjustment for other sources/uses | (2,145) |
| Adjustment for encumbrances | <u>61,074</u> |
| GAAP basis | <u>\$ 101,234</u> |

NOTE 15 - 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 is 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

| | <u>Instructional Materials</u> | <u>Capital Maintenance</u> | <u>Budget Stabilization</u> |
|--|------------------------------------|--------------------------------|---------------------------------|
| Set-aside cash balance as of June 30, 2004 | \$ (424,791) | \$ - | \$ 12,042 |
| Current year set-aside requirement | 142,599 | 142,599 | - |
| Current year offsets | - | (173,875) | - |
| Current year qualifying disbursements | <u>(109,767)</u> | <u>(39,738)</u> | <u>-</u> |
| Total | <u>\$ (391,959)</u> | <u>\$ (71,014)</u> | <u>\$ 12,042</u> |
| Balance carried forward to FY 2006 | <u>\$ (391,959)</u> | <u>\$ -</u> | <u>\$ 12,042</u> |

The District had offsets and qualifying disbursements during the year that reduced the instructional materials and capital maintenance set-aside amounts below zero. The negative amount for the instructional materials set-aside is being carried forward to reduce the set-aside requirements of future years, but the negative amount for the capital maintenance set-aside is not allowed to be carried forward.

A schedule of the restricted assets at June 30, 2005 as follows:

| | |
|--|------------------|
| Amount restricted for budget stabilization | \$ 12,042 |
| Amount restricted for school bus purchases | <u>10,415</u> |
| Total restricted assets | <u>\$ 22,457</u> |



Mary Taylor, CPA

Auditor of State

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

Mathews Local School District
Trumbull County
4434-B Warren-Sharon Road
Vienna, OH 44473

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mathews Local School District, Trumbull County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 25, 2007. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

We intend this report solely for the information and use of the audit committee, management, and the board of education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

September 25, 2007



Mary Taylor, CPA
Auditor of State

MATHEWS LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 20, 2007**