



**Auditor of State
Betty Montgomery**

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Mathews Local School District
4429 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 the Mathews Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2002, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2002, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Trumbull County
Independent Accountant's Report
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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

June 21, 2004

Mathews Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

It is a privilege to present to you the financial picture of Mathews Local School District. Included in these first few paragraphs and tables is the management's view of how our School District is currently performing and how that performance may change in the future. It is intended that this presentation be an objective and easily read analysis of the overall financial condition of our School District. Please consider our comments along with the financial statements and notes to fully understand our School District's finances.

Financial Highlights

- The School District showed a decrease in net assets of \$207,167 during this year's operations. Net assets of governmental activities decreased \$207,480 or 5.7 percent while business-type activities showed an increase in net assets of \$313 or .7 percent.
- Total government-wide revenues were \$8,233,972. General revenues accounted for \$7,522,388 or 91.4 percent of this total with program revenues accounting for the remainder of \$711,584 or 8.6 percent.
- The School District had \$8,113,092 in expenses related to governmental activities; only \$422,483 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and school foundation) of \$7,522,388 were inadequate to provide funding for these programs resulting in a \$207,480 decrease in net assets.
- The School District's business-type activities demonstrated an increase in revenue of \$10,830 or 3.9 percent. The corresponding expenses also increased by \$33,056 or 11.2 percent.
- The Mathews Local School District continued to note growth in property tax revenue. Governmental activities tax collections increased by \$118,681.
- The School District bought \$899,733 in capital assets.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. The *Statement of Net Assets* and the *Statement of Activities* (on page 15 and 16-17) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Major fund financial statements start on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what funds remain for future spending. Fund financial statements also report the School District's operations in more detail than the government-wide statements by providing information about the School District's most significant funds. In the case of Mathews Local School District, the general fund and the permanent improvement fund are the most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as a trustee or agent for the benefit of those outside the government.

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Reporting the School District as a Whole (District-Wide)

Statement of Net Assets and the Statement of Activities

Analysis of the School District as a whole begins on page 5. One of the most important questions asked when analyzing any business entity is “How did we do financially during 2002?” The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting. The accrual basis of accounting is the method used by most private-sector companies. The most important aspect of accrual accounting is that all of the year’s revenues and expenses are reported regardless of when cash is received or paid out.

These two statements report the net assets of the School District and note any changes in those assets. This change in assets is important because it tells the reader whether, for the School District as a whole, the financial position has improved or deteriorated. However, in evaluating the overall position of the School District, non-financial information such as changes in property values, tax levies, or state funding will also need to be evaluated before a final conclusion about the School District’s financial status can be reached.

In the *Statement of Net Assets* and the *Statement of Activities*, we show the School District divided into two kinds of activities:

- **Governmental Activities** – All of the School District’s instructional activities are reported here. Property taxes, state and federal grants and fees finance the majority of activity in this group.
- **Business-Type Activities** – A business-type activity is one in which the Board of Education charges a fee to customers to help it recover some or all of the costs incurred in a program. The School District’s school lunch and workbook programs are reported here.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

Analysis of the School District’s major funds begins on page 10. The fund financial statements begin on page 18 and provide detailed information about each significant fund in contrast to the previously described district-wide reporting. Most of the funds are required to be established by state law.

Governmental Funds – Most of the School District’s funds are reported as governmental funds. These reports focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These reports are done on a modified accrual basis. Modified accrual accounting measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed, short-term view of the School District’s general government operations and the basic services it provides. There are differences between governmental funds (as reported in this section on a modified accrual basis) and governmental activities as reported in the *Statement of Net Assets* and the *Statement of Activities*, which are reported on a full accrual basis. These differences are reconciled in the financial statements.

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Proprietary Funds – The Board of Education charges students for school lunch. The money collected is intended to defray expenses necessary to cook and serve lunch. Each year the Board reviews reports detailing revenues and expenses. The Board then decides whether to raise prices. Another proprietary fund is the uniform supplies fund. Workbooks are purchased through this fund. Students are charged for their workbooks because, unlike a textbook, workbooks cannot be used the next year. Workbooks are “consumed” by the students. It has been the history at the Mathews Local School District for both the school lunch and workbook funds to end the year in a deficit financial position.

The School District as a Whole

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

Table 1 provides a summary of net assets as of June 30, 2002, as compared to June 30, 2001.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Assets						
Current and Other Assets	\$6,549,006	\$6,523,241	\$18,512	\$8,327	\$6,567,518	\$6,531,568
Capital Assets, Net	3,509,202	2,931,556	2,231	2,631	3,511,433	2,934,187
<i>Total Assets</i>	<u>10,058,208</u>	<u>9,454,797</u>	<u>20,743</u>	<u>10,958</u>	<u>10,078,951</u>	<u>9,465,755</u>
Liabilities						
Current and Other Liabilities	5,193,885	4,821,648	29,906	34,681	5,223,791	4,856,329
Long Term Liabilities:						
Due Within One Year	138,980	44,897	0	0	138,980	44,897
Due in More than One Year	1,298,276	953,705	32,369	18,122	1,330,645	971,827
<i>Total Liabilities</i>	<u>6,631,141</u>	<u>5,820,250</u>	<u>62,275</u>	<u>52,803</u>	<u>6,693,416</u>	<u>5,873,053</u>
Net Assets						
Invested in Capital Assets Net of Related Debt	3,097,870	2,787,552	2,231	2,631	3,100,101	2,790,183
Restricted:						
Capital Projects	139,288	332,476	0	0	139,288	332,476
Other Purposes	44,723	79,174	0	0	44,723	79,174
Unrestricted (Deficit)	145,186	435,345	(43,763)	(44,476)	101,423	390,869
<i>Total Net Assets (Deficit)</i>	<u>\$3,427,067</u>	<u>\$3,634,547</u>	<u>(\$41,532)</u>	<u>(\$41,845)</u>	<u>\$3,385,535</u>	<u>\$3,592,702</u>

The School District’s total net assets were down from a year ago decreasing \$207,167, from \$3,592,702 to \$3,385,535. The reason for this decrease is that while total assets increased by \$613,196, total liabilities increased by \$820,363. In other words, liabilities increased more than assets. The School District’s long-term liabilities showed a significant net increase of \$452,901. This increase is due in part to the enhanced severance package offered by the School District beginning in fiscal year 2002 and also the purchase of a bus garage through a lease purchase option.

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Current and other assets increased by \$35,950. This increase is primarily due to an increase in taxes receivable.

Capital assets in governmental activities were added in the gross amount of \$899,733. Most of this increase is from the renovation of the HVAC systems at both Baker and Currie Elementary buildings and the purchase of a bus garage. To arrive at the net increase in capital assets of \$577,646 in governmental activities, you must subtract this year's depreciation expense of \$222,645 and also the residual (or undepreciated) value of the disposed equipment of \$99,442.

The net assets of our business-type activities increased by \$313 but still continued to show a deficit of \$41,532. The Board of Education pondered raising the full lunch prices but declined to do so. The School District already has the highest full lunch prices in Trumbull County. The Board of Education did raise the prices on all a la carte items. The Board of Education also increased the price of milk by five cents a carton. The School District management will continue to look for ways to alleviate the negative balance in the future.

Table 2 shows the transfers made from the general fund for fiscal year 2002.

(Table 2)
Transfers

	To Other Governmental Funds	To Business-Type Funds
Food Service	\$0	\$39,210
Uniform School Supplies (Workbooks)	0	49
Athletic Fund	102,342	0
Total Transfers	\$102,342	\$39,259

The School District transferred \$141,601 from the general fund to other funds so that these funds would not end the year with a negative balance. The funds that received these transfers are listed above.

The School District has regularly made transfers into the food service and uniform school supplies funds. Beginning in fiscal year 2000, transfers were added for athletic and student activity funds to offset supplemental salary contracts. Previously these salaries were paid with general fund monies. It is the Board's intention now to pay these salaries out of their respective funds and then transfer in the necessary balance at the fiscal year-end.

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Table 3 shows the changes in net assets as of June 30, 2002, as compared to the changes in net assets as of June 30, 2001.

(Table 3)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Revenues						
Program Revenues						
Charges for Services	\$155,991	\$126,495	\$192,231	\$199,948	\$348,222	\$326,443
Operating Grants and Contributions	229,734	267,072	96,870	78,323	326,604	345,395
Capital Grants and Contributions	36,758	69,540	0	0	36,758	69,540
<i>Total Program Revenues</i>	<u>422,483</u>	<u>463,107</u>	<u>289,101</u>	<u>278,271</u>	<u>711,584</u>	<u>741,378</u>
General Revenues:						
Property Taxes	4,314,668	4,195,987	0	0	4,314,668	4,195,987
Grant and Entitlements not Restricted to Specific Programs	3,159,970	3,067,216	0	0	3,159,970	3,067,216
Other	47,750	141,475	0	0	47,750	141,475
<i>Total General Revenues</i>	<u>7,522,388</u>	<u>7,404,678</u>	<u>0</u>	<u>0</u>	<u>7,522,388</u>	<u>7,404,678</u>
Transfer In	0	0	39,259	5,887	39,259	5,887
<i>Total Revenues and Transfers</i>	<u>7,944,871</u>	<u>7,867,785</u>	<u>328,360</u>	<u>284,158</u>	<u>8,273,231</u>	<u>8,151,943</u>
Program Expenses						
Instruction:						
Regular	3,931,486	3,100,721	0	0	3,931,486	3,100,721
Special	630,530	343,047	0	0	630,530	343,047
Vocational	175,737	204,053	0	0	175,737	204,053
Support Services:						
Pupils	458,874	500,792	0	0	458,874	500,792
Instructional Staff	293,062	225,417	0	0	293,062	225,417
Board of Education	85,008	181,907	0	0	85,008	181,907
Administration	642,330	518,417	0	0	642,330	518,417
Fiscal	253,993	243,581	0	0	253,993	243,581
Operation and Maintenance of Plant	883,531	1,022,670	0	0	883,531	1,022,670
Pupil Transportation	534,824	384,908	0	0	534,824	384,908
Central	82,182	64,168	0	0	82,182	64,168
Extracurricular Activities	139,940	151,174	0	0	139,940	151,174
Interest and Fiscal Charges	1,595	184	0	0	1,595	184
Food Service	0	0	311,860	273,998	311,860	273,998
Uniform School Supplies	0	0	16,187	20,993	16,187	20,993
<i>Total Expenses</i>	<u>8,113,092</u>	<u>6,941,039</u>	<u>328,047</u>	<u>294,991</u>	<u>8,441,139</u>	<u>7,236,030</u>
Transfer Out	39,259	5,887	0	0	39,259	5,887
<i>Increase (Decrease) in Net Assets</i>	<u>(\$207,480)</u>	<u>\$920,859</u>	<u>\$313</u>	<u>(\$10,833)</u>	<u>(\$207,167)</u>	<u>\$910,026</u>

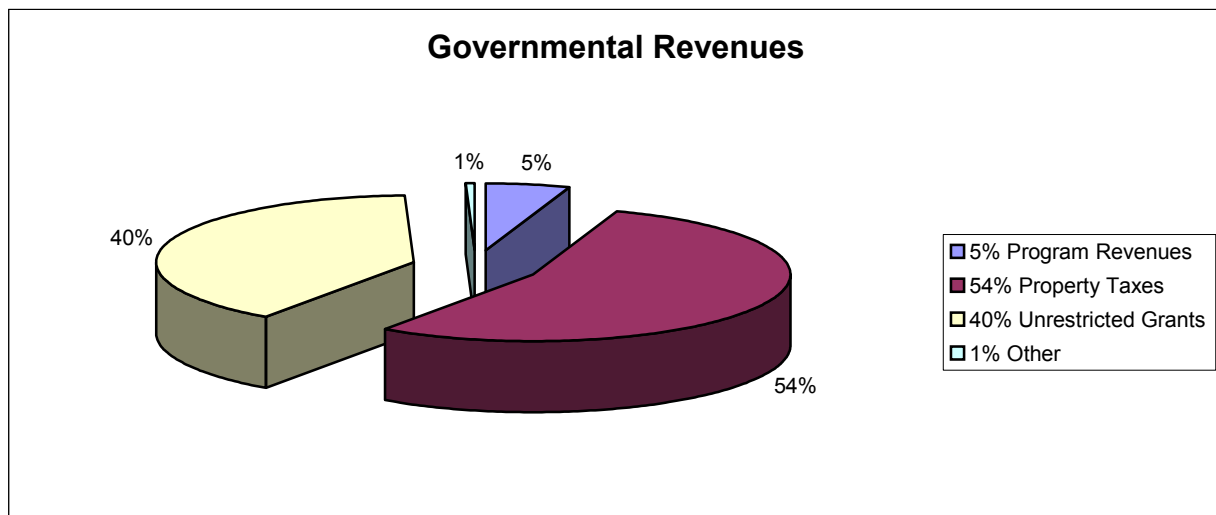
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This table highlights the School District's revenues and expenses. The expenses are subtracted from the revenues to yield the change in net assets. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: program revenue and general revenue. Program revenue is defined as fees, restricted grants, and charges for services that are program specific. General revenue includes taxes and unrestricted grants such as State Foundation support.

Expenses shown in programs are easily identifiable to a particular function utilizing the current Uniform School Accounting System (USAS) coding structure.

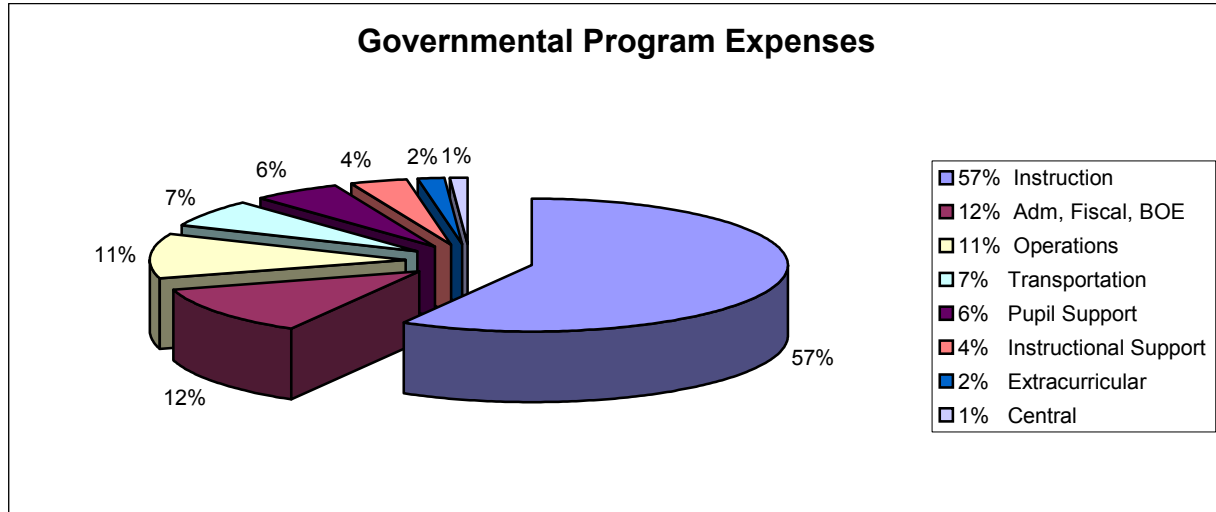
This is the second year the School District has prepared financial statements according to GASB Statement 34, so revenue and expense comparisons to fiscal year 2001 are presented alongside the current fiscal year. This comparison will enable the reader to draw further conclusions about the School District's financial status.



Program revenues remained relatively consistent when compared with the previous fiscal year. General revenues showed an increase in property tax collections of \$118,681. Most of this increase is due to an increase in tangible personal property tax revenue received from new business Timken Latrobe in the amount of \$45,959 and also additional tax revenue received from new construction. An increase in unrestricted grants and entitlements of \$92,754 is also noted, and most of this increase is due to the public utility property tax reimbursement. A decrease in other general revenue of \$93,725 is due mostly to lower investment income. With the declining market, the School District was unable to get the interest rates it had earned in the previous year and still maintain safe investments.

Property taxes made up 54 percent of total revenues for governmental activities while program revenues contributed 5 percent of total revenues. The 40 percent provided by unrestricted grants and entitlements include monies received from the Ohio Department of Education State Foundation Program and property tax relief such as the homestead exceptions and rollbacks provided by House Bill 920 and also the public utility property tax reimbursement. The community, through its willingness to provide property tax revenues, is by far the primary support for Mathews Local School District students.

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Program expenses increased by \$1,205,109. The majority of this increase is due to program expenses for instruction, which increased by \$1,089,932. The increase in this program expense is due, in part, to the Mathews Education Association Master Agreement. The salary agreement included a three percent increase on the salary base and also a step increase for those certified employees at step 13 and above and for all those certified employees at the masters + 30 classification. Other factors in this increase include employment of three additional teachers and two additional educational aides. Another area that had an increase in expenses is transportation. The School District experienced increased expenses in the areas of special busing and in maintenance of the School District fleet. Expenses in the area of building operations declined due to a milder winter with decreased heating costs.

Analysis of Overall Financial Positions and Results of Operations

The financial position of the Mathews Local School District deteriorated slightly over the past fiscal year. The School District continued to make improvements in services for children by spending more on regular and special instruction. The School District's capital assets were also greatly enhanced. Because spending increased more than revenue increased, the cash balance decreased.

In Table 4 the total cost of services for the fiscal year ended June 30, 2002, is compared to the total cost of services for the fiscal year ended June 30, 2001. This table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

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(Table 4)
Governmental Activities

Programs	Total Cost of Services 2002	Total Cost of Services 2001	Net Cost of Services 2002	Net Cost of Services 2001
Instruction	\$4,737,753	\$3,647,821	\$4,507,529	\$3,427,965
Support Services:				
Pupils and Instructional Staff	751,936	726,209	652,320	617,470
Board of Education, Administration and Fiscal Services	981,331	943,905	976,331	938,905
Operation and Maintenance of Plant	883,531	1,022,670	883,531	1,022,670
Pupil Transportation	534,824	384,908	509,412	360,663
Central	82,182	64,168	67,795	64,168
Extracurricular	139,940	151,174	92,096	45,907
Interest and Fiscal Charges	1,595	184	1,595	184
Total Expenses	\$8,113,092	\$6,941,039	\$7,690,609	\$6,477,932

This table discloses an interesting piece of information. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) and local taxes. The difference in these two columns of \$422,483 would represent restricted grants, fees, and donations. The dependence upon general tax revenues for governmental activities is apparent. Over 95 percent of instruction activities, \$4,507,529, are supported through taxes and other general revenues.

The School District's Funds

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,840,158 and expenditures of \$8,522,151.

General Fund Financial Activity

The most significant governmental fund is the general fund. The balance of the general fund decreased by \$199,231 to \$688,231. This decrease was due to expenditures exceeding revenue.

General Fund Budgetary Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The forecasted budget presented to the Mathews Local Board of Education in September was amended several times throughout the year. For the general fund, original budgeted revenues were \$7,189,403. The final budgeted revenues were \$7,295,592. The increase in the estimate of \$106,189 was due to increased property tax and unrestricted grant revenues. The final estimated revenue was within one-tenth of one percent of the actual revenue of \$7,297,824.

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Original budgeted expenditures in the general fund were \$7,500,641. The final budgeted expenditures were \$7,435,379. The decrease in the estimate of \$65,262 was due to lower capital outlay expenditures than anticipated. The final estimated expenditures were within one percent of the actual expenditures of \$7,366,183.

Capital Assets

Table 5 shows the ending balances of capital assets in various categories as of June 30, 2002, compared to the balances as of June 30, 2001.

(Table 5)
Capital Assets at June 30, 2002
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$363,767	\$341,567	\$0	\$0	\$363,767	\$341,567
Land Improvements	199,331	216,240	0	0	199,331	216,240
Buildings and Improvements	1,685,999	1,237,555	0	0	1,685,999	1,237,555
Furniture and Equipment	811,419	746,513	2,231	2,631	813,650	749,144
Vehicles	269,906	266,898	0	0	269,906	266,898
Textbooks and Library Books	178,780	122,783	0	0	178,780	122,783
Total	\$3,509,202	\$2,931,556	\$2,231	\$2,631	\$3,511,433	\$2,934,187

The table shows a net increase (additions less the depreciation expense) of \$577,646 in governmental activities. As stated earlier, most of this increase can be attributed to the renovation of the HVAC units at the two elementary buildings and the purchase of a bus garage. The high school library/media center and locker rooms were also renovated. The School District also continued to make upgrades by purchasing textbooks, library books, instruments, furniture, marker boards, file cabinets, printers, computers, sewing machines, stoves, signs for the middle school and high school, and a bus.

The ending balance of capital assets in the business-type activities shows a decrease of \$400 compared to the prior year. This decrease is due to current year depreciation (see Note 12).

Debt

The School District has no bonded indebtedness. The School District has a 20-year, interest free, asbestos removal loan. The balance as of June 30, 2002, is \$130,332. The School District pays \$12,961 yearly on this loan, which will be paid in full November, 2013.

In April 2002, the School District entered into a \$281,000 lease-purchase agreement with the Rickenbacker Port Authority through the Ohio Association of School Business Officials Pooled Financing Program to purchase a bus garage located at 4205 King Graves Road in Fowler Township. The average interest rate on this obligation is 4.48 percent and the payments average \$62,700 per year. The lease purchase will be paid in full December, 2006.

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As of June 30, 2002, the School District's legal debt margin was \$11,080,135 with an unvoted debt margin of \$123,113. Neither Moody's nor Standard & Poor's currently rate the Mathews Local School District. The School District will need to apply for a rating to ensure the lowest possible rate of borrowing prior to beginning any major building project.

Current Issues

As the preceding information shows, the School District is heavily reliant on the local property taxpayers. The School District does not anticipate placing any new levies on the ballot. It does, however, require passage of the following renewals if it is to have a secure future: 2.0 mill permanent improvement levy-November, 2002, 12.68 mill operating levy-November, 2003, and 8.7 mill operating levy-November, 2004.

ATD Corporation, a business located within the School District, filed bankruptcy papers in 1997. To date, the total tax loss to the School District from that bankruptcy is \$394,898. With a bankruptcy settlement, real estate taxes will be paid first. It is anticipated that the School District will recoup some of this lost income in the future.

Delphi Automotive Systems employees began occupying their new plant in Vienna Township during fiscal year 2002. It is anticipated that the School District will begin receiving tax revenue from this new plant in fiscal year 2004.

The Mathews Local School District became a "guarantee" school district in fiscal year 2000. A guarantee school district receives additional State Foundation aid on top of the current year's calculated amount to bring the school 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 School District. A higher property valuation equals a lower State share. Because Mathews student population has declined since 1999 and the property value of the School District has risen, the calculated amount of State aid has also declined. The Ohio Department of Education estimates that the School District will receive \$225,788 in additional State aid in 2003 due to the guarantee. The State legislature decides with every biennial budget whether they will continue the guarantee. The discontinuance of the guarantee would have an unfavorable impact on the School District's finances in the future.

The Mathews Local School District has four aging buildings. The Ohio School Facilities Commission ranks Mathews 393 out of 613 districts in the state to receive classroom facilities funds. In other words, 392 school districts will receive funds before Mathews does. This ranking is based on property tax valuation per pupil. Because of this ranking, it is not anticipated that the School District will receive any construction funds from the State of Ohio until 2008 at the earliest. The Ohio School Facilities Commission has determined the local share of the Mathews taxpayers to be 65 percent with the State of Ohio contributing 35 percent to any new or remodeled facilities.

Since the School District is not eligible for the Classroom Facilities Assistance Program within two years, the School District has applied for and been approved to participate in the School Building Assistance Expedited Local Partnership Program. Under the "Expedited" program, the School District can apply the expenditure of local resources for the construction of classroom facilities or major repairs toward the School District's portion required when the School District becomes eligible for such State assistance.

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Unaudited

Retirement of employees can have a large impact on all school districts. School districts pay much higher wages to employees with a large number of years of service. The School District can save as much as \$35,000 per year on each retired certified employee replaced with a new certified employee. Some of that savings is negated due to severance benefits, but still a sizeable savings can be realized. The School District has 14 certified employees nearing retirement. These retirements will have a favorable impact on the School District's finances in the future.

It is anticipated that the annual transfer of funds into the food service enterprise fund will continue. It is doubtful that the increase in the price of the a la carte items and milk will be enough to offset the rising expenditures. Food service personnel received a salary increase for fiscal year 2003. The program will also be negatively impacted by an increase in medical premiums. Because of the increase in expenses, the year-end transfer to food service will continue. All supplemental contract personnel also received a salary increase. This increase in salaries will equate into greater transfers for both athletic and student activity funds.

The cost of employee benefits is one of the largest expenditures to a school district. The Mathews Local Board of Education provides the following benefits to its employees: medical, prescription, dental, vision, and life insurances. It is anticipated that effective January 1, 2003, the School District will receive an eight percent increase in its medical and prescription costs. This increase equates to \$82,000 per year in additional expenditures based on the current staff. Needless to say, this increase will have a negative effect on the financial condition of the School District. The School District is currently seeking alternative sources of benefits and alternative benefit plans to offset the increase.

Another rising cost to the School District is its special education expenditures. The School District has a contract for special education services with the Trumbull County Educational Service Center. The School District was notified in September, 2002 that its expenditures for fiscal year 2002 were \$54,500 higher than anticipated. In that regard, the contract for special education services with the Trumbull County Educational Service Center for fiscal year 2003 has been increased by \$65,800. The combination of these two increases results in the School District's special education expenditure for fiscal year 2003 to be at least \$120,300 more than the previous year.

The School District realizes that prudent management will be necessary in order to continue to provide the resources necessary to meet student needs while diligently controlling the increasing expenditures in salaries, benefits, and special education.

Contacting the School District's Financial Management

These financial reports and discussions are designed to provide our students, citizens, taxpayers, investors, and creditors with a complete disclosure of the School District's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have any questions about this report or need additional financial information, please write Teri S. Andrika, Treasurer, Mathews Local School District, 4434-B Warren-Sharon Rd., Vienna, Ohio 44473 or call (330) 394-1800 or Email teri.andrika@neomin.org.

Basic Financial Statements

Mathews Local School District*Statement of Net Assets**June 30, 2002*

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,605,353	\$0	\$1,605,353
Accounts Receivable	1,696	0	1,696
Intergovernmental Receivable	1,440	8,538	9,978
Accrued Interest Receivable	1,373	0	1,373
Prepaid Items	110,723	2,888	113,611
Inventory Held for Resale	0	6,483	6,483
Materials and Supplies Inventory	22,353	603	22,956
Taxes Receivable	4,806,068	0	4,806,068
Nondepreciable Capital Assets	363,767	0	363,767
Depreciable Capital Assets, Net	3,145,435	2,231	3,147,666
<i>Total Assets</i>	<u>10,058,208</u>	<u>20,743</u>	<u>10,078,951</u>
Liabilities			
Accounts Payable	43,232	0	43,232
Accrued Wages Payable	610,543	16,900	627,443
Matured Compensated Absences Payable	137,363	13,006	150,369
Retainage Payable	21,356	0	21,356
Intergovernmental Payable	179,629	0	179,629
Deferred Revenue	4,201,762	0	4,201,762
Long-Term Liabilities:			
Due Within One Year	138,980	0	138,980
Due In More Than One Year	1,298,276	32,369	1,330,645
<i>Total Liabilities</i>	<u>6,631,141</u>	<u>62,275</u>	<u>6,693,416</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,097,870	2,231	3,100,101
Restricted for:			
Capital Projects	139,288	0	139,288
Other Purposes	44,723	0	44,723
Unrestricted (Deficit)	145,186	(43,763)	101,423
<i>Total Net Assets (Deficit)</i>	<u>\$3,427,067</u>	<u>(\$41,532)</u>	<u>\$3,385,535</u>

See accompanying notes to the basic financial statements

Mathews Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$3,931,486	\$98,821	\$40,399	\$0
Special	630,530	0	91,004	0
Vocational	175,737	0	0	0
Support Services:				
Pupil	458,874	0	82,132	0
Instructional Staff	293,062	6,285	11,199	0
Board of Education	85,008	0	0	0
Administration	642,330	0	5,000	0
Fiscal	253,993	0	0	0
Operation and Maintenance of Plant	883,531	0	0	0
Pupil Transportation	534,824	3,041	0	22,371
Central	82,182	0	0	14,387
Extracurricular Activities	139,940	47,844	0	0
Interest and Fiscal Charges	1,595	0	0	0
<i>Total Governmental Activities</i>	<u>\$8,113,092</u>	<u>\$155,991</u>	<u>\$229,734</u>	<u>\$36,758</u>
Business-Type Activities				
Food Service	311,860	176,224	96,870	0
Uniform School Supplies	16,187	16,007	0	0
<i>Total Business-Type Activities</i>	<u>328,047</u>	<u>192,231</u>	<u>96,870</u>	<u>0</u>
<i>Totals</i>	<u><u>\$8,441,139</u></u>	<u><u>\$348,222</u></u>	<u><u>\$326,604</u></u>	<u><u>\$36,758</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year (Deficit)

Net Assets End of Year (Deficit)

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,792,266)	\$0	(\$3,792,266)
(539,526)	0	(539,526)
(175,737)	0	(175,737)
(376,742)	0	(376,742)
(275,578)	0	(275,578)
(85,008)	0	(85,008)
(637,330)	0	(637,330)
(253,993)	0	(253,993)
(883,531)	0	(883,531)
(509,412)	0	(509,412)
(67,795)	0	(67,795)
(92,096)	0	(92,096)
(1,595)	0	(1,595)
(7,690,609)	0	(7,690,609)
0	(38,766)	(38,766)
0	(180)	(180)
0	(38,946)	(38,946)
(7,690,609)	(38,946)	(7,729,555)
4,149,444	0	4,149,444
165,224	0	165,224
3,159,970	0	3,159,970
47,750	0	47,750
7,522,388	0	7,522,388
(39,259)	39,259	0
7,483,129	39,259	7,522,388
(207,480)	313	(207,167)
3,634,547	(41,845)	3,592,702
\$3,427,067	(\$41,532)	\$3,385,535

Mathews Local School District

Balance Sheet

Governmental Funds

June 30, 2002

	<u>General</u>	<u>Permanent Improvement Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,415,682	\$125,106	\$64,565	\$1,605,353
Accrued Interest Receivable	1,373	0	0	1,373
Accounts Receivable	1,696	0	0	1,696
Intergovernmental Receivable	0	0	1,440	1,440
Materials and Supplies Inventory	22,353	0	0	22,353
Taxes Receivable	4,639,515	166,553	0	4,806,068
Prepaid Items	110,176	0	547	110,723
<i>Total Assets</i>	<u>\$6,190,795</u>	<u>\$291,659</u>	<u>\$66,552</u>	<u>\$6,549,006</u>
Liabilities				
Accounts Payable	\$41,936	\$0	\$1,296	\$43,232
Accrued Wages Payable	605,896	0	4,647	610,543
Matured Compensated Absences Payable	137,363	0	0	137,363
Intergovernmental Payable	122,930	0	1,310	124,240
Retainage Payable	0	21,356	0	21,356
Deferred Revenue	4,594,439	164,918	1,440	4,760,797
<i>Total Liabilities</i>	<u>5,502,564</u>	<u>186,274</u>	<u>8,693</u>	<u>5,697,531</u>
Fund Balances				
Reserved for Encumbrances	114,009	22,435	5,691	142,135
Reserved for Property Taxes	45,076	1,635	0	46,711
Unreserved, Undesignated, Reported in:				
General Fund	529,146	0	0	529,146
Special Revenue Funds	0	0	37,781	37,781
Capital Projects Funds	0	81,315	14,387	95,702
<i>Total Fund Balances</i>	<u>688,231</u>	<u>105,385</u>	<u>57,859</u>	<u>851,475</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,190,795</u>	<u>\$291,659</u>	<u>\$66,552</u>	<u>\$6,549,006</u>

See accompanying notes to the basic financial statements

Mathews Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2002*

Total Governmental Fund Balances \$851,475

*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds 3,509,202

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Property Tax	557,595
Operating Grants	<u>1,440</u>

Total 559,035

Due to other governments includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (55,389)

Long-term liabilities are not due and payable in the current
 period and therefore are not reported in the funds:

Compensated Absences	(1,025,924)
Asbestos Loan	(130,332)
Capital Lease	<u>(281,000)</u>

Total (1,437,256)

Net Assets of Governmental Activities \$3,427,067

See accompanying notes to the basic financial statements

Mathews Local School District

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2002

	General	Permanent Improvement Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$4,058,302	\$145,708	\$0	\$4,204,010
Intergovernmental	3,165,990	16,351	248,866	3,431,207
Interest	47,750	0	0	47,750
Tuition and Fees	52,345	0	0	52,345
Extracurricular Activities	0	0	103,646	103,646
Contributions and Donations	1,200	0	0	1,200
<i>Total Revenues</i>	<u>7,325,587</u>	<u>162,059</u>	<u>352,512</u>	<u>7,840,158</u>
Expenditures				
Current:				
Instruction:				
Regular	3,780,308	0	114,806	3,895,114
Special	531,212	0	91,542	622,754
Vocational	163,950	0	0	163,950
Support Services:				
Pupil	374,532	0	80,698	455,230
Instructional Staff	286,418	0	23,548	309,966
Board of Education	85,008	0	0	85,008
Administration	565,002	0	1,026	566,028
Fiscal	248,276	0	0	248,276
Operation and Maintenance of Plant	795,678	21,356	391	817,425
Pupil Transportation	459,647	4,420	3,153	467,220
Central	92,460	0	5,000	97,460
Extracurricular Activities	0	0	148,620	148,620
Capital Outlay	0	612,333	17,500	629,833
Debt Service:				
Principal Retirement	711	12,961	0	13,672
Interest and Fiscal Charges	15	1,580	0	1,595
<i>Total Expenditures</i>	<u>7,383,217</u>	<u>652,650</u>	<u>486,284</u>	<u>8,522,151</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(57,630)</u>	<u>(490,591)</u>	<u>(133,772)</u>	<u>(681,993)</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	0	281,000	0	281,000
Transfers In	0	0	102,342	102,342
Transfers Out	(141,601)	0	0	(141,601)
<i>Total Other Financing Sources (Uses)</i>	<u>(141,601)</u>	<u>281,000</u>	<u>102,342</u>	<u>241,741</u>
<i>Net Change in Fund Balances</i>	<u>(199,231)</u>	<u>(209,591)</u>	<u>(31,430)</u>	<u>(440,252)</u>
<i>Fund Balances Beginning of Year</i>	<u>887,462</u>	<u>314,976</u>	<u>89,289</u>	<u>1,291,727</u>
<i>Fund Balances End of Year</i>	<u>\$688,231</u>	<u>\$105,385</u>	<u>\$57,859</u>	<u>\$851,475</u>

See accompanying notes to the basic financial statements

Mathews Local School District
*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, 2002*

Net Change in Fund Balances - Total Governmental Funds (\$440,252)

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which capital
outlays exceeded depreciation in the current period.

Capital Outlay	899,733
Depreciation	<u>(222,645)</u>

Total	677,088
-------	---------

Governmental funds only report the disposal of fixed assets to the
extent proceeds are received from the sale. In the statement of
activities, a gain or loss is reported for each disposal. (99,442)

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds.

Property Tax	110,658
Operating Grants	<u>(5,945)</u>

Total	104,713
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Some of the capital assets acquired this year were financed with
capital leases. The amount financed by the leases is reported in
the governmental funds as a source of financing. On the other
hand, the capital leases are not revenues in the statement of
activities, but rather constitute long-term liabilities in the
statement of net assets. (281,000)

Repayment of the asbestos loan and capital lease principal is an
expenditure in the governmental funds, but the repayment reduces
long-term liabilities in the statement of net assets. 13,672

Some expenses reported in the statement of activities, such as
compensated absences and contractually required pension
contributions, do not require the use of current financial
resources and therefore are not reported as expenditures
in governmental funds.

Compensated Absences	(170,615)
Pension Obligation	<u>(11,644)</u>

Total	<u>(182,259)</u>
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Change in Net Assets of Governmental Activities (\$207,480)

See accompanying notes to the basic financial statements

Mathews Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Fiscal Year Ended June 30, 2002

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$3,963,835	\$4,022,388	\$4,022,388	\$0
Intergovernmental	3,119,903	3,165,990	3,165,990	0
Interest	50,982	51,735	53,935	2,200
Tuition and Fees	51,532	52,293	52,293	0
Contributions and Donations	1,183	1,200	1,200	0
Miscellaneous	1,968	1,986	2,018	32
<i>Total Revenues</i>	<u>7,189,403</u>	<u>7,295,592</u>	<u>7,297,824</u>	<u>2,232</u>
Expenditures				
Current:				
Instruction:				
Regular	3,678,824	3,646,411	3,612,141	34,270
Special	530,338	525,571	519,369	6,202
Vocational	169,026	167,555	165,867	1,688
Support Services:				
Pupils	387,370	384,045	379,921	4,124
Instructional Staff	295,358	293,013	290,132	2,881
Board of Education	108,492	107,637	107,450	187
Administration	575,078	569,976	568,469	1,507
Fiscal	260,758	258,499	255,471	3,028
Operation and Maintenance of Plant	858,031	850,558	844,614	5,944
Pupil Transportation	542,923	538,477	529,729	8,748
Central	94,443	93,637	93,020	617
<i>Total Expenditures</i>	<u>7,500,641</u>	<u>7,435,379</u>	<u>7,366,183</u>	<u>69,196</u>
<i>Excess of Revenues Under Expenditures</i>	(311,238)	(139,787)	(68,359)	71,428
Other Financing Uses				
Transfers Out	(141,622)	(141,622)	(141,601)	21
<i>Net Change in Fund Balance</i>	(452,860)	(281,409)	(209,960)	71,449
<i>Fund Balance Beginning of Year</i>	1,314,435	1,314,435	1,314,435	0
Prior Year Encumbrances Appropriated	155,488	155,488	155,488	0
<i>Fund Balance End of Year</i>	<u>\$1,017,063</u>	<u>\$1,188,514</u>	<u>\$1,259,963</u>	<u>\$71,449</u>

See accompanying notes to the basic financial statements

Mathews Local School District

Statement of Fund Net Assets

Enterprise Fund

June 30, 2002

	Business-Type Activity
	Food Service
Assets	
<i>Current Assets</i>	
Intergovernmental Receivable	\$8,538
Prepaid Items	2,888
Inventory Held for Resale	6,483
Materials and Supplies Inventory	603
<i>Total Current Assets</i>	18,512
<i>Noncurrent Assets</i>	
Capital Assets, Net	2,231
<i>Total Assets</i>	20,743
Liabilities	
<i>Current Liabilities</i>	
Accrued Wages Payable	16,900
Intergovernmental Payable	13,006
<i>Total Current Liabilities</i>	29,906
<i>Long-Term Liabilities</i>	
Compensated Absences Payable	32,369
<i>Total Liabilities</i>	62,275
Net Assets	
Invested in Capital Assets	2,231
Unrestricted (Deficit)	(43,763)
<i>Total Net Assets (Deficit)</i>	(\$41,532)

See accompanying notes to the basic financial statements

Mathews Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Fiscal Year Ended June 30, 2002*

	Business-Type Activities - Enterprise Funds		
	Food Service	Uniform School Supplies	Total
Operating Revenues			
Sales	\$176,224	\$16,007	\$192,231
Operating Expenses			
Salaries	141,421	0	141,421
Fringe Benefits	48,185	0	48,185
Purchased Services	2,668	0	2,668
Materials and Supplies	32,850	8,093	40,943
Cost of Sales	86,336	8,094	94,430
Depreciation	400	0	400
<i>Total Operating Expenses</i>	<u>311,860</u>	<u>16,187</u>	<u>328,047</u>
<i>Operating Loss</i>	<u>(135,636)</u>	<u>(180)</u>	<u>(135,816)</u>
Non-Operating Revenues			
Federal Donated Commodities	30,288	0	30,288
Operating Grants	66,582	0	66,582
<i>Total Non-Operating Revenues</i>	<u>96,870</u>	<u>0</u>	<u>96,870</u>
<i>Loss Before Operating Transfers</i>	(38,766)	(180)	(38,946)
Transfers In	39,210	49	39,259
<i>Change in Net Assets</i>	444	(131)	313
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(41,976)</u>	<u>131</u>	<u>(41,845)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$41,532)</u></u>	<u><u>\$0</u></u>	<u><u>(\$41,532)</u></u>

See accompanying notes to the basic financial statements

Mathews Local School District
Statement of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2002

	Business-Type Activities - Enterprise Funds		
	Food Service	Uniform School Supplies	Total
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$176,224	\$16,007	\$192,231
Cash Payments to Suppliers for Goods and Services	(98,074)	(16,187)	(114,261)
Cash Payments to Employees for Services	(127,219)	0	(127,219)
Cash Payments for Employees Benefits	(48,185)	0	(48,185)
<i>Net Cash Used for Operating Activities</i>	(97,254)	(180)	(97,434)
Cash Flows from Noncapital Financing Activities			
Operating Grants Received	58,044	0	58,044
Transfers In	39,210	49	39,259
<i>Net Cash Provided by Noncapital Financing Activities</i>	97,254	49	97,303
<i>Net Decrease in Cash and Cash Equivalents</i>	0	(131)	(131)
<i>Cash and Cash Equivalents Beginning of Year</i>	0	131	131
<i>Cash and Cash Equivalents End of Year</i>	\$0	\$0	\$0

(continued)

Mathews Local School District
Statement of Cash Flows
Enterprise Funds (continued)
For the Fiscal Year Ended June 30, 2002

	Business-Type Activities - Enterprise Funds		
	Food Service	Uniform School Supplies	Total
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:			
<i>Operating Loss</i>	(\$135,636)	(\$180)	(\$135,816)
<i>Adjustments:</i>			
Depreciation	400	0	400
Donated Commodities Received During Year	30,288	0	30,288
<i>(Increase)/Decrease in Assets:</i>			
Inventory Held for Resale	(6,914)	0	(6,914)
Materials and Supplies Inventory	406	0	406
Prepays	(1,045)	0	(1,045)
<i>Increase/(Decrease) in Liabilities:</i>			
Accrued Wages Payable	(1,219)	0	(1,219)
Compensated Absences Payable	14,247	0	14,247
Intergovernmental Payable	2,219	0	2,219
<i>Total Adjustments</i>	38,382	0	38,382
<i>Net Cash Used for Operating Activities</i>	(\$97,254)	(\$180)	(\$97,434)

Non Cash Non Capital Financing Activities

Federal Donated Commodities in the amount of \$30,288 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the basic financial statements

Mathews Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2002

	<u>Student Activities</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	<u>\$34,316</u>
Liabilities	
Due to Students	<u>\$34,316</u>

See accompanying notes to the basic financial statements

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Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1 - Description of the School District and Reporting Entity

Mathews Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and federal guidelines. This Board of Education controls the School District's four instructional/support facilities staffed by 51 classified employees, 72 certified full-time, and 5 administrators who provide services to 1,013 students and other community members.

Reporting Entity

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

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

The School District participates in five jointly governed organizations and two public entity risk pools. These organizations are the Trumbull County Career and Technical Center, the North East Ohio Management Information Network, the North East Ohio Instructional Media Center, the North East Ohio Special Education Regional Resource Center, the Region 12 Professional Development Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Trumbull County Schools Employee Insurance Consortium. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Mathews Local School District have been prepared in conformity with generally accepted accounting principles (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 School 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. Following are the more significant of the School District's accounting policies.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Capital Projects Fund - The permanent improvement capital projects fund accounts for property tax revenue to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The School District has no internal service funds. The following are the School District's proprietary funds:

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise funds are:

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

Uniform School Supplies Fund This fund accounts for the purchase and sale of school supplies for use in the School 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 four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities.

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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. The enterprise funds and the fiduciary fund also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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

Expenditures/Expenses On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Budgetary Process

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 levels 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 School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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.

F. Cash and Investments

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

During fiscal year 2002, investments were limited to certificates of deposit, STAROhio and a money market deposit account. Nonparticipating investment contracts such as the money market deposit account and the certificates of deposit are reported at cost.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2002.

By Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$47,750, which includes \$5,642 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories consist of donated food, purchased food, school supplies held for resale and materials and supplies held for consumption.

I. 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 on the fund financial statements. Capital assets utilized by the Food Service enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

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

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

All reported capital assets, other than 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:

Description	Governmental Activities Estimated Lives	Business - type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	99 years	N/A
Furniture and Equipment	8 - 20 years	20 years
Vehicles	10 years	N/A
Textbooks and Library Books	5 years	N/A

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated the leave are paid.

In the Food Service enterprise fund, 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 the enterprise funds are reported on the enterprise 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, special termination benefits and contractually required

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans and capital leases are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

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

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

M. Fund Balance Reserves

The School District reserves those portions of fund balance 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, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the School 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. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

O. Interfund Transactions

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

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

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2002.

Q. Estimates

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

Note 3 - Accountability

Fund balances at June 30, 2002, included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Local Professional Development	\$3
Emergency Management Information Systems	22
Ohio Reads	29
Title I	205
Title VI	24
Class Size Reduction	3,036
<i>Enterprise Fund:</i>	
Food Service	41,532

The special revenue deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

The enterprise fund deficit resulted from a pattern of expenses regularly exceeding revenues. Management is looking for ways to alleviate the deficit.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting its 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) 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 GAAP (modified accrual) basis are as follows:

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$199,231)
Net Adjustment for Revenue Accruals	(27,763)
Net Adjustment for Expenditure Accruals	172,753
Adjustment for Encumbrances	<u>(155,719)</u>
Budget Basis	<u><u>(\$209,960)</u></u>

Note 5 - Deposits and Investments

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

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

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

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

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

Interim monies may be invested in the following securities:

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

1. United States treasury bills, bonds, notes, 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 obligation or security 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; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$618,785 and the bank balance was \$651,777. Of the bank balance:

1. \$245,071 of the bank balance was covered by depository insurance; and

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

2. \$406,706 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

STAROhio	Fair Value \$1,020,884
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The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$1,639,669	\$0
Investments which are part of a cash management pool:		
STAROhio	(1,020,884)	1,020,884
<i>GASB Statement No. 3</i>	\$618,785	\$1,020,884

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Mathews Local School District
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For the Fiscal Year Ended June 30, 2002

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second - Half Collections		2002 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$105,358,940	88.00%	\$108,314,920	87.98%
Public Utility	7,136,110	5.96	5,783,670	4.70
Tangible Personal Property	7,233,146	6.04	9,014,021	7.32
Total Assessed Value	\$119,728,196	100.00%	\$123,112,611	100.00%
Tax rate per \$1,000 of assessed valuation	\$58.18		\$58.18	

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

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

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real, personal property and public utility taxes which are measurable as of June 30, 2002 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 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. At June 30, 2002, \$45,076 and \$1,635 was available as an advance to the general fund and to the permanent improvement capital projects fund respectively. 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 is deferred.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 7 - Receivables

Receivables at June 30, 2002, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

Intergovernmental receivables consisted of \$1,440 in the class size reduction special revenue fund for operating grants and \$8,538 in the food service enterprise fund for federal and state subsidies.

Note 8 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted for the following insurance coverage:

Coverage	Amount
Coverage provided by Indiana Insurance:	
Building and Contents-replacement cost (\$1,000 deductible)	\$16,386,797
Inland Marine Coverage (\$100 deductible)	378,410
Crime Insurance (\$100 deductible)	3,000
Automobile Liability (\$1,000 deductible on comprehensive) (\$1,000 deductible on collision)	1,000,000
Auto Medical Payments	5,000
Uninsured Motorists (No deductible)	250,000
 Coverage provided by Great American:	
General Liability	
Per occurrence (\$1,000 deductible)	1,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Workers' Compensation

The School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its

Mathews Local School District
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For the Fiscal Year Ended June 30, 2002

individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to 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.

C. Employee Medical Benefits

The School District has 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 District pays a monthly contribution, which is placed in 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 9 - Defined Benefit Pension Plans

A. School Employees Retirement System

The Mathews Local School 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Mathews Local School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent of annual covered salary was 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's Retirement Board. The Mathews Local School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$52,269, \$34,865, and \$41,581 respectively; 55.98 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$23,010 represents the unpaid contribution for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

The Mathews Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Mathews Local School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$335,255, \$308,620, and \$176,094, respectively; 83.83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$54,218 represents the unpaid contribution for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

Note 10 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$158,805 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$96,612.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 11 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and the treasurer earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and the treasurer upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 400 days for classified employees and unlimited for certified employees. Upon retirement, payment is made for all accrued but unused sick leave according to the following formulas:

Certified (First Year Eligible)	Final Contracted Salary x .002 x Number of Sick Days Accumulated
Certified	Final Contracted Salary x .00125 x Number of Sick Days Accumulated
Classified	Final Contracted Salary (including longevity pay) x .00185 x Number of Sick Days Accumulated

B. Life Insurance

Life insurance is provided to all employees. Classified employees receive \$40,000, full time certified employees receive \$40,000, part time classified employees receive \$24,000, and administrators receive an amount based on their salary up to a maximum of \$50,000, with the exception of the superintendent, who receives a maximum of \$300,000.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 12 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance 6/30/01	Additions	Deletions	Balance 6/30/02
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$341,567	\$22,200	\$0	\$363,767
Capital Assets being depreciated:				
Land Improvements	532,462	60,780	(132,924)	460,318
Buildings and Improvements	1,834,905	488,824	(29,614)	2,294,115
Furniture and Equipment	1,426,492	167,963	(76,668)	1,517,787
Vehicles	505,807	58,051	(3,600)	560,258
Textbooks and Library Books	571,635	101,915	0	673,550
Total Assets being depreciated	4,871,301	877,533	(242,806)	5,506,028
Less Accumulated Depreciation:				
Land Improvements	(\$316,222)	(\$18,425)	\$73,660	(\$260,987)
Buildings and Improvements	(597,350)	(20,122)	9,356	(608,116)
Furniture and Equipment	(679,979)	(85,777)	59,388	(706,368)
Vehicles	(238,909)	(52,403)	960	(290,352)
Textbooks and Library Books	(448,852)	(45,918)	0	(494,770)
Total Accumulated Depreciation	(2,281,312)	(222,645) *	143,364	(2,360,593)
Total Capital Assets being depreciated, net	2,589,989	654,888	(99,442)	3,145,435
Governmental Activities Capital Assets, Net	<u>\$2,931,556</u>	<u>\$677,088</u>	<u>(\$99,442)</u>	<u>\$3,509,202</u>
Business-Type Activities				
Furniture and Equipment	\$75,508	\$0	\$0	\$75,508
Less Accumulated Depreciation	(72,877)	(400)	0	(73,277)
Business-Type Activities Capital Assets, Net	<u>\$2,631</u>	<u>(\$400)</u>	<u>\$0</u>	<u>\$2,231</u>

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$114,097
Special	3,292
Vocational	1,237
Support Services:	
Pupils	1,093
Instructional Staff	23,763
Administration	5,136
Fiscal	1,235
Operation and Maintenance of Plant	11,613
Pupil Transportation	48,974
Central	6,758
Extracurricular	5,447
Total Depreciation Expense	\$222,645

Note 13 - Long-term Obligations

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Deductions	Principal Outstanding 6/30/02	Amounts due in One Year
Governmental-Type Activities					
1993 EPA Asbestos Loan 0%	\$143,293	\$0	\$12,961	\$130,332	\$12,961
Capital Leases	711	281,000	711	281,000	51,000
Compensated Absences	855,309	335,580	164,965	1,025,924	75,019
<i>Total Governmental Long-Term Activities</i>	\$999,313	\$616,580	\$178,637	\$1,437,256	\$138,980
Business-Type Activities					
Compensated Absences	\$18,122	\$29,434	\$15,187	\$32,369	\$0

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 School District. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2013. The loan was paid from the capital projects fund in fiscal year 2002.

Capital leases will be paid from the general and permanent improvement capital projects funds and compensated absences will be paid from the general fund and food service enterprise fund.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

The School District's overall legal debt margin was \$11,080,135 with an unvoted debt margin of \$123,113 at June 30, 2002.

Principal requirements to retire general obligation debt outstanding at June 30, 2002, are as follows:

Fiscal year Ending June 30,	Principal
2003	\$12,961
2004	12,961
2005	12,961
2006	12,961
2007	12,961
2008-2012	64,805
2013	722
<i>Total</i>	<u><u>\$130,332</u></u>

Note 14 - Capital Leases - Lessee Disclosure

Capital lease obligations recorded in the permanent improvement capital projects fund relate to a bus garage lease purchase by the School District. This lease meets the criteria for capital leases as defined by Statement of Financial Accounting Standards No.13 "Accounting for Leases." Capital assets acquired by lease have been originally capitalized in the amount of \$281,000. Accumulated depreciation on this lease was \$2,838 leaving a current book value of \$278,162. This amount represents the present value of the minimum lease payments at the time of acquisition. No lease payments have been made as of June 30, 2002. The entire principal amount owed on the lease is \$281,000.

Fiscal Year Ending June 30,	Amount
2003	\$62,472
2004	62,115
2005	62,645
2006	63,063
2007	63,369
Total Base Rent Payments	313,664
Less: Amount Representing Interest	(32,664)
Present Value of Minimum Lease Payments	<u><u>\$281,000</u></u>

Note 15 - Set-Aside Calculations and Fund Reserves

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2001	(\$318,695)	\$0
Current Year Set-Aside Requirement	117,761	117,761
Qualifying Disbursements	(277,002)	(227,489)
Current year offsets	0	(160,424)
Total	(\$477,936)	(\$270,152)
Set-Aside Balance Carried Forward to		
Future Fiscal Years	(\$477,936)	\$0
Cash balance as of June 30, 2002	\$0	\$0

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Note 16 - 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. Mathews Local School District paid \$14,775 to NEOMIN during fiscal year 2002.

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).

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

The Mathews Local School District was not represented on the Governing Board during fiscal year 2002. The degree of control exercised by any participating school district is limited to its representation on 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) - The North-East Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among forty-five school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the School District. Each member pays a monthly premium based on use of the media materials.

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one County Superintendent from each participating county, one City Superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2002, Mathews Local School District contributed \$1,376, which is \$1.36 per student. 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.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. 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 Mahoning County Educational Service Center, 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 board made up of nineteen 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.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 17 - Public Entity Risk Pools

A. Insurance Purchasing Pool

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

B. Shared Risk Pool

Trumbull County Schools Employee Insurance Consortium - The School District participates in the Trumbull County Schools Employee 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.

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

The School District is a party to legal proceedings. The School District's management is of the opinion that the ultimate disposition of these claims will not have a material effect, if any, on the financial condition of the School District.

Mathews Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 19 - Interfund Transfers

Transfers made during the year ended June 30, 2002 were as follows:

Fund Name	Transfer In	Transfer Out
General Fund	\$0	\$141,601
All Other Governmental Funds	102,342	0
Total Governmental Funds	102,342	141,601
Business-Type Funds	39,259	0
Total	\$141,601	\$141,601

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Note 20 - Subsequent Event

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- O A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- O Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted this request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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



**Auditor of State
Betty Montgomery**

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

Mathews Local School District
4429 Warren-Sharon Road
Vienna, Ohio 44473

To the Board of Education,

We have audited the financial statements of Mathews Local School District as of and for the year ended June 30, 2002, and have issued our report thereon dated June 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mathews Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mathews Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we did note another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of Mathews Local School District in a separate letter dated June 21, 2004.

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

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

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

Betty Montgomery
Auditor of State

June 21, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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
JULY 6, 2004**