



**Auditor of State
Betty Montgomery**

**LABRAE LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	21
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Expenditures.....	51
Notes to Schedule of Federal Awards Expenditures	52
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance With OMB Circular A-133.....	55
Schedule of Findings.....	57

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

LaBrae Local School District
Trumbull County
4615 West Market Street
Leavittsburg, Ohio 44430

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of LaBrae Local School District, Trumbull County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

March 31, 2005

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

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$133,264 which represents a 0.46% decrease from 2003.
- General revenues accounted for \$11,407,977 in revenue or 86.57% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,769,419 or 13.43% of total revenues of \$13,177,396.
- The District had \$13,310,660 in expenses related to governmental activities; only \$1,769,419 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,407,977 were not adequate to provide for these programs.
- The District has two major governmental funds. They are the general fund and classroom facilities fund. The general fund had \$10,387,292 in revenues and other financing sources and \$11,281,734 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$898,487 from \$3,118,698 to \$2,220,211.
- The classroom facilities fund is a major fund of the District. The classroom facilities fund had \$9,779,063 in revenues and \$8,111,689 in expenditures. During fiscal 2004, the classroom facilities fund's fund balance increased \$1,667,374 from \$16,082,035 to \$17,749,409.

Using These Basic Financial Statements (BFS)

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

The statement of net assets and the statement of activities, include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, food service operations and uniform school supplies activities.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

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

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 29,710,097	\$ 38,590,516
Capital assets	<u>14,155,175</u>	<u>5,886,476</u>
Total assets	<u>43,865,272</u>	<u>44,476,992</u>
<u>Liabilities</u>		
Current liabilities	5,555,111	5,979,800
Long-term liabilities	<u>9,327,378</u>	<u>9,381,145</u>
Total liabilities	<u>14,882,489</u>	<u>15,360,945</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	14,127,402	5,840,188
Restricted	12,762,766	19,436,415
Unrestricted	<u>2,092,615</u>	<u>3,839,444</u>
Total net assets	<u>\$ 28,982,783</u>	<u>\$ 29,116,047</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$28,982,783. Of this total \$2,092,615 is unrestricted in use.

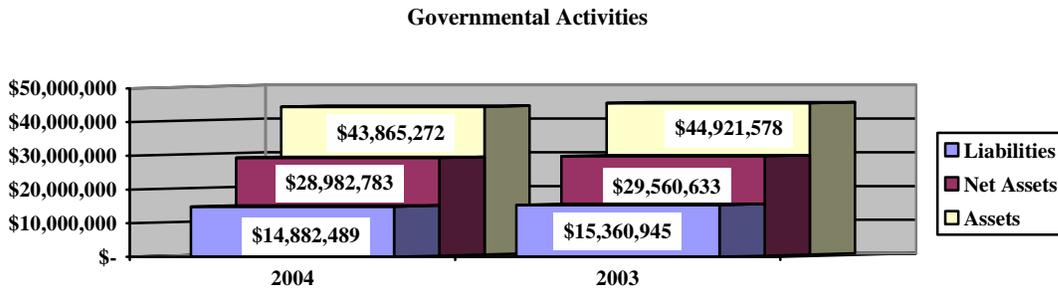
At fiscal year-end, capital assets represented 32.27% of total assets. Capital assets include land, other improvements, buildings, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$14,127,402. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

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

A portion of the District's net assets, \$12,762,766, represents resources that are subject to external restriction on how they may be used. Of this total, \$11,519,530 is restricted for capital projects, \$1,005,699 is restricted for debt service and \$237,537 is restricted for other purposes.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2004 and 2003:



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

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program revenues:		
Charges for services and sales	\$ 614,876	\$ 591,589
Operating grants and contributions	1,154,543	1,202,312
General revenues:		
Property taxes	4,018,212	4,020,482
Grants and entitlements	7,274,099	7,012,391
Investment earnings	51,019	281,536
Gain on disposal of capital assets	-	12,551
Miscellaneous	64,647	210,919
Total revenues	13,177,396	13,331,780

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

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

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,089,771	\$ 5,555,815
Special	1,658,085	1,481,138
Vocational	127,505	136,493
Other	272,303	377,159
Support services:		
Pupil	447,814	449,699
Instructional staff	337,253	380,386
Board of education	41,266	35,842
Administration	1,083,945	1,279,670
Fiscal	272,905	250,425
Operations and maintenance	965,320	999,685
Pupil transportation	679,757	675,739
Central	201,225	203,663
Operations of non-instructional services	2,234	1,837
Food service operations	489,051	535,924
Extracurricular activities	261,655	267,193
Interest and fiscal charges	<u>380,571</u>	<u>419,695</u>
Total expenses	<u>13,310,660</u>	<u>13,050,363</u>
Increase (decrease) in net assets	<u>\$ (133,264)</u>	<u>\$ 281,417</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$133,264. Total governmental expenses of \$13,310,660 were offset by program revenues of \$1,769,419 and general revenues of \$11,407,977. Program revenues supported 13.29% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 85.69% of total governmental revenue.

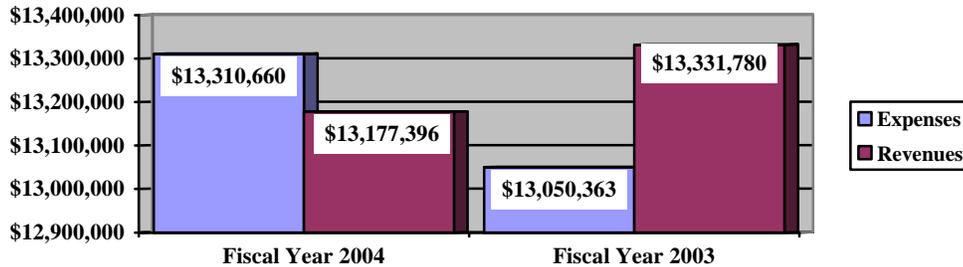
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,147,664 or 61.21% of total governmental expenses for fiscal year 2004.

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

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

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

Governmental Activities - Revenues and Expenses



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

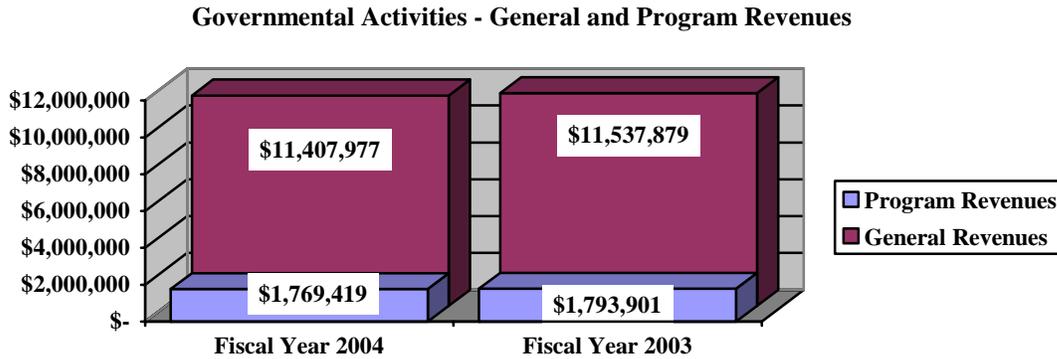
	Governmental Activities			
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 6,089,771	\$ 5,620,640	\$ 5,555,815	\$ 5,111,216
Special	1,658,085	1,182,587	1,481,138	986,766
Vocational	127,505	127,505	136,493	136,493
Other	272,303	260,303	377,159	377,159
Support services:				
Pupil	447,814	447,814	449,699	406,599
Instructional staff	337,253	151,544	380,386	211,756
Board of education	41,266	41,266	35,842	35,842
Administration	1,083,945	1,021,400	1,279,670	1,237,524
Fiscal	272,905	268,637	250,425	244,959
Operations and maintenance	965,320	940,892	999,685	999,685
Pupil transportation	679,757	679,757	675,739	675,739
Central	201,225	195,707	203,663	197,947
Operations of non-instructional services	2,234	1,028	1,837	595
Food service operations	489,051	23,936	535,924	9,230
Extracurricular activities	261,655	197,654	267,193	205,257
Interest and fiscal charges	380,571	380,571	419,695	419,695
Total expenses	<u>\$ 13,310,660</u>	<u>\$ 11,541,241</u>	<u>\$ 13,050,363</u>	<u>\$ 11,256,462</u>

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

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

The dependence upon tax and other general revenues for governmental activities is apparent, 88.26% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.71%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$21,514,624, which is higher than last year's total of \$20,329,303. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Restated Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 2,220,211	\$ 3,118,698	\$ (898,487)
Classroom Facilities	17,749,409	16,082,035	1,667,374
Other Governmental	<u>1,545,004</u>	<u>1,128,570</u>	<u>416,434</u>
Total	<u>\$ 21,514,624</u>	<u>\$ 20,329,303</u>	<u>\$ 1,185,321</u>

General Fund

The District's general fund balance decreased \$898,487. The table that follows assists in illustrating the financial activities of the general fund.

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

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

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,006,161	\$ 3,078,320	\$ (72,159)	(2.34) %
Tuition	128,932	178,771	(49,839)	(27.88) %
Earnings on investments	31,250	10,806	20,444	189.19 %
Intergovernmental	7,038,128	6,951,805	86,323	1.24 %
Other revenues	<u>149,106</u>	<u>57,308</u>	<u>91,798</u>	160.18 %
Total	<u>\$ 10,353,577</u>	<u>\$ 10,277,010</u>	<u>\$ 76,567</u>	0.75 %
<u>Expenditures</u>				
Instruction	\$ 7,041,694	\$ 6,735,683	\$ 306,011	4.54 %
Support services	3,878,867	3,777,351	101,516	2.69 %
Operation of non-instructional services	1,028	595	433	72.77 %
Extracurricular activities	197,677	189,772	7,905	4.17 %
Facilities acquisition and construction	<u>162,468</u>	<u>3,483</u>	<u>158,985</u>	4,564.60 %
Total	<u>\$ 11,281,734</u>	<u>\$ 10,706,884</u>	<u>\$ 574,850</u>	5.37 %

Classroom Facilities Fund

The classroom facilities fund had \$9,779,063 in revenues and \$8,111,689 in expenditures. During fiscal 2004, the classroom facilities fund's fund balance increased \$1,667,374 from \$16,082,035 to \$17,749,409.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$10,579,635, which was lower than the original budgeted revenues estimate of \$10,799,033. Actual revenues and other financing sources for fiscal 2004 was \$10,582,049. This represents a \$2,414 increase over final budgeted revenues

General fund final appropriations (appropriated expenditures plus other financing uses) were \$12,439,567, which was higher than the original budgeted appropriations estimate of \$11,915,200. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$11,652,179, which was \$787,388 less than the final budget appropriations.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$14,155,175 invested in land, other improvements, buildings, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 266,417	\$ 264,548
Other improvements	12,835	13,618
Buildings	1,591,928	1,674,153
Furniture and equipment	1,381,245	1,522,348
Vehicles	648,242	550,551
Construction in progress	<u>10,254,508</u>	<u>1,861,258</u>
Total	<u>\$ 14,155,175</u>	<u>\$ 5,886,476</u>

The primary increase occurred in CIP which includes a new building project. Total additions to capital assets for 2004 were \$8,745,671, total disposals were \$81,105 (net of accumulated depreciation) and depreciation expense was \$395,867. The overall increase in capital assets of \$8,268,699 is primarily due to the construction in progress going on within the District in fiscal 2004.

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

Debt Administration

At June 30, 2004, the District had \$8,311,515 in general obligation bonds and \$27,773 in an asbestos loan outstanding. Of this total, \$308,515 is due within one year and \$8,030,773 is due within greater than one year. The following table summarizes the bonds and asbestos loan outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 8,311,515	\$ 8,571,564
Asbestos loan	<u>27,773</u>	<u>46,288</u>
Total	<u>\$ 8,339,288</u>	<u>\$ 8,617,852</u>

At June 30, 2004, the District's overall legal debt margin was \$2,267,850, and an unvoted debt margin of \$115,501.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

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

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

Current Financial Related Activities

The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize levy millage requests from our citizens. As the preceding information shows, the general fund's cash balance (both restricted and unrestricted) was \$3,364,217 at June 30, 2004. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance.

Our District heavily depends on its property taxpayers. Our community's support was recently measured in the fall of 2004 when the community passed a 3 mill permanent improvement issue.

Continued legislative and judicial actions have occurred that will have a major impact on our District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional education system, one that was neither "adequate" nor "equitable". The state has not yet developed a school funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the state may not have the ability to fully fund the previously approved subsidies for primary and secondary in the state budget. The biannual budget approved in the state for fiscal year 2004 and 2005 did not prove helpful to the funding situation for the LaBrae Local Schools. Changes to the state's school foundation funding formula did not include additional revenue, and in fact, caused a decline in foundation funding for 2004.

Declining enrollment over the past ten years is a trend that has received the attention of the Board of Education and Administration. Reduced student counts lead to staffing reduction and less state funding. Each of these factors negatively impacts the operations of the District.

Another challenge facing the District is the completion of our new 3 through 12 school building. Costs not covered by the bond issue could exceed 3.5 million dollars. The Board and Administration have set aside money for part of the additional cost, but must find an additional funding source to complete the project.

The District continues its commitment to educational and financial excellence. The budgetary and internal controls utilized by the District are well regarded by the Auditor of State, as exemplified by the unqualified audit opinions that have been received. The District is committed to living within its financial means and working with the community it serves in order to gather adequate resources to support the educational program.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Carol Jones, Treasurer, LaBrae Local School District, 4561 West Market Street, Leavittsburg, Ohio 44430.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 22,754,543
Receivables:	
Taxes	5,203,185
Accounts	12,328
Intergovernmental	1,565,551
Accrued interest	70,688
Prepayments	79,979
Materials and supplies inventory.	23,823
Capital assets:	
Land and construction in progress	10,520,925
Depreciable capital assets, net	3,634,250
Total capital assets, net	14,155,175
 Total assets.	 43,865,272
 Liabilities:	
Accounts payable.	94,265
Contracts payable.	98,819
Accrued wages and benefits	1,212,431
Pension obligation payable.	241,366
Intergovernmental payable	16,576
Deferred revenue	3,862,264
Accrued interest payable	29,390
Long-term liabilities:	
Due within one year.	375,695
Due within more than one year	8,951,683
Total liabilities	14,882,489
 Net Assets:	
Invested in capital assets, net	
of related debt.	14,127,402
Restricted for:	
Capital projects	11,519,530
Debt service.	1,005,699
Other purposes	237,537
Unrestricted.	2,092,615
Total net assets	\$ 28,982,783

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 6,089,771	\$ 327,229	\$ 141,902	\$ (5,620,640)
Special	1,658,085	-	475,498	(1,182,587)
Vocational	127,505	-	-	(127,505)
Other	272,303	-	12,000	(260,303)
Support services:				
Pupil	447,814	-	-	(447,814)
Instructional staff	337,253	-	185,709	(151,544)
Board of education	41,266	-	-	(41,266)
Administration	1,083,945	-	62,545	(1,021,400)
Fiscal	272,905	-	4,268	(268,637)
Operations and maintenance	965,320	24,428	-	(940,892)
Pupil transportation	679,757	-	-	(679,757)
Central	201,225	-	5,518	(195,707)
Operation of non-instructional services	2,234	-	1,206	(1,028)
Extracurricular activities	261,655	64,001	-	(197,654)
Food service operations	489,051	199,218	265,897	(23,936)
Interest and fiscal charges	380,571	-	-	(380,571)
Total governmental activities	13,310,660	614,876	1,154,543	(11,541,241)
General Revenues:				
Property taxes levied for:				
General purposes				3,082,175
Debt service				621,209
Facilities maintenance				65,493
Capital outlay				249,335
Grants and entitlements not restricted to specific programs				7,274,099
Investment earnings				51,019
Miscellaneous				64,647
Total general revenues				11,407,977
Change in net assets				(133,264)
Net assets at beginning of year (restated) . . .				29,116,047
Net assets at end of year				\$ 28,982,783

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 3,317,781	\$ 17,713,118	\$ 1,677,208	\$ 22,708,107
Receivables:				
Taxes	3,982,777	-	1,220,408	5,203,185
Accounts	10,810	-	1,518	12,328
Intergovernmental	31,643	1,460,978	72,930	1,565,551
Accrued interest	31,237	39,451	-	70,688
Interfund loans	72,800	-	-	72,800
Prepayments	43,027	36,952	-	79,979
Materials and supplies inventory	9,450	-	14,373	23,823
Restricted assets:				
Equity in pooled cash and investments	46,436	-	-	46,436
Total assets	\$ 7,545,961	\$ 19,250,499	\$ 2,986,437	\$ 29,782,897
Liabilities:				
Accounts payable	\$ 71,610	\$ -	\$ 22,655	\$ 94,265
Contracts payable	-	98,819	-	98,819
Accrued wages and benefits	1,092,812	-	119,619	1,212,431
Compensated absences payable	47,723	-	-	47,723
Pension obligation payable	145,724	-	13,880	159,604
Intergovernmental payable	15,264	-	1,312	16,576
Interfund loan payable	-	-	72,800	72,800
Deferred revenue	3,952,617	1,402,271	1,211,167	6,566,055
Total liabilities	5,325,750	1,501,090	1,441,433	8,268,273
Fund Balances:				
Reserved for encumbrances	128,430	287,993	420	416,843
Reserved for budget stabilization	46,436	-	-	46,436
Reserved for materials and supplies inventory	9,450	-	14,373	23,823
Reserved for property tax unavailable for appropriation	30,160	-	9,241	39,401
Reserved for debt service	-	-	177,974	177,974
Reserved for prepayments	43,027	36,952	-	79,979
Unreserved, undesignated, reported in:				
General fund	1,962,708	-	-	1,962,708
Special revenue funds	-	-	365,230	365,230
Capital projects funds	-	17,424,464	977,766	18,402,230
Total fund balances	2,220,211	17,749,409	1,545,004	21,514,624
Total liabilities and fund balances	\$ 7,545,961	\$ 19,250,499	\$ 2,986,437	\$ 29,782,897

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Total governmental fund balances		\$	21,514,624
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			14,155,175
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,301,520	
Accrued interest		1,391,100	
Intergovernmental revenue		11,171	
Total			2,703,791
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		8,311,515	
Compensated absences		940,367	
Pension obligation payable		81,762	
Asbestos abatement note		27,773	
Accrued interest payable		29,390	
Total			(9,390,807)
Net assets of governmental activities		\$	28,982,783

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,006,161	\$ -	\$ 910,916	\$ 3,917,077
Tuition.	128,932	-	-	128,932
Earnings on investments.	31,250	18,907	832	50,989
Charges for services	-	-	199,218	199,218
Classroom materials and fees	12,431	-	19,118	31,549
Extracurricular.	-	-	144,630	144,630
Other local revenues.	136,675	-	38,519	175,194
Intergovernmental - State	7,030,806	9,690,278	316,029	17,037,113
Intergovernmental - Federal.	7,322	69,878	1,004,607	1,081,807
Total revenue	<u>10,353,577</u>	<u>9,779,063</u>	<u>2,633,869</u>	<u>22,766,509</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,433,826	-	322,069	5,755,895
Special.	1,202,094	-	454,401	1,656,495
Vocational.	145,471	-	-	145,471
Other	260,303	-	12,000	272,303
Support Services:				
Pupil.	409,796	-	-	409,796
Instructional staff	146,535	-	148,844	295,379
Board of education	41,186	-	-	41,186
Administration.	989,718	-	60,231	1,049,949
Fiscal	248,269	-	19,581	267,850
Operations and maintenance.	1,065,322	-	-	1,065,322
Pupil transportation	782,702	-	-	782,702
Central.	195,339	-	5,518	200,857
Operation of non-instructional services	1,028	-	1,206	2,234
Food service operations	-	-	483,259	483,259
Extracurricular activities.	197,677	-	61,310	258,987
Facilities acquisition and construction	162,468	8,111,689	-	8,274,157
Debt service:				
Principal retirement	-	-	303,515	303,515
Interest and fiscal charges	-	-	355,813	355,813
Total expenditures	<u>11,281,734</u>	<u>8,111,689</u>	<u>2,227,747</u>	<u>21,621,170</u>
Excess of revenues over (under) expenditures.	<u>(928,157)</u>	<u>1,667,374</u>	<u>406,122</u>	<u>1,145,339</u>
Other financing sources:				
Proceeds from sale of capital assets	33,715	-	-	33,715
Total other financing sources	<u>33,715</u>	<u>-</u>	<u>-</u>	<u>33,715</u>
Net change in fund balances	(894,442)	1,667,374	406,122	1,179,054
Fund balances at beginning of year				
(restated)	3,118,698	16,082,035	1,128,570	20,329,303
Increase in reserve for inventory.	(4,045)	-	10,312	6,267
Fund balances at end of year	<u>\$ 2,220,211</u>	<u>\$ 17,749,409</u>	<u>\$ 1,545,004</u>	<u>\$ 21,514,624</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Net change in fund balances - total governmental funds	\$	1,179,054
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$8,745,671) exceeds depreciation expense(\$395,867) in the current period.		8,349,804
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(81,105)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(9,589,113)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		303,515
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as expense when consumed.		6,267
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(24,758)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(276,928)
Change in net assets of governmental activities	\$	(133,264)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,050,279	\$ 2,987,882	\$ 2,988,568	\$ 686
Tuition.	120,530	118,065	118,092	27
Earnings on investments.	29,433	28,831	28,838	7
Classroom materials and fees	12,688	12,428	12,431	3
Other local revenues.	210,890	208,086	208,117	31
Intergovernmental - State.	7,175,985	7,029,191	7,030,806	1,615
Intergovernmental - Federal	8,732	8,553	8,555	2
Total revenue	<u>10,608,537</u>	<u>10,393,036</u>	<u>10,395,407</u>	<u>2,371</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,736,095	5,795,361	5,537,381	257,980
Special.	1,260,116	1,374,633	1,237,419	137,214
Vocational.	151,831	183,838	146,055	37,783
Other	271,037	310,000	266,590	43,410
Support Services:				
Pupil.	426,991	423,758	411,056	12,702
Instructional staff	154,546	160,516	148,362	12,154
Board of education	43,528	49,796	43,477	6,319
Administration.	1,034,431	1,037,979	996,350	41,629
Fiscal	249,297	257,712	244,037	13,675
Operations and maintenance.	1,122,201	1,191,359	1,091,681	99,678
Pupil transportation	804,723	853,846	783,651	70,195
Central.	203,305	239,050	215,901	23,149
Operation of non-instructional services	1,993	1,993	1,028	965
Extracurricular activities.	211,342	214,726	203,158	11,568
Facilities acquisition and construction	168,335	270,000	253,233	16,767
Total expenditures	<u>11,839,771</u>	<u>12,364,567</u>	<u>11,579,379</u>	<u>785,188</u>
Excess of revenues under expenditures.	<u>(1,231,234)</u>	<u>(1,971,531)</u>	<u>(1,183,972)</u>	<u>787,559</u>
Other financing sources (uses):				
Refund of prior year expenditure	81,022	79,365	79,383	18
Advances in.	75,063	73,527	73,544	17
Advances (out)	(75,429)	(75,000)	(72,800)	2,200
Proceeds from sale of capital assets.	34,411	33,707	33,715	8
Total other financing sources (uses)	<u>115,067</u>	<u>111,599</u>	<u>113,842</u>	<u>2,243</u>
Net change in fund balance	(1,116,167)	(1,859,932)	(1,070,130)	789,802
Fund balance at beginning of year	4,043,266	4,043,266	4,043,266	-
Prior year encumbrances appropriated	202,867	202,867	202,867	-
Fund balance at end of year	<u>\$ 3,129,966</u>	<u>\$ 2,386,201</u>	<u>\$ 3,176,003</u>	<u>\$ 789,802</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 4,587	\$ 20,910
Accounts receivable.	-	3,144
	<u>4,587</u>	<u>24,054</u>
Total assets	<u>4,587</u>	<u>\$ 24,054</u>
Liabilities:		
Due to students	-	\$ 24,054
	<u>-</u>	<u>\$ 24,054</u>
Total liabilities	<u>-</u>	<u>\$ 24,054</u>
Net Assets:		
Held in trust for scholarships	4,587	
	<u>4,587</u>	
Total net assets	<u>\$ 4,587</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 1,832
Total additions.	1,832
Deductions:	
Scholarships awarded	439
Change in net assets	1,393
Net assets at beginning of year.	3,194
Net assets at end of year	\$ 4,587

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The LaBrae Local School District (the "District") is located in Trumbull County and encompasses all or part of surrounding townships.

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

The District is the 373rd largest by enrollment among the 613 public school districts in the state. It currently operates three elementary schools and one comprehensive middle/high school. The District is staffed by 59 non-certified and 110 certificated personnel to provide services to approximately 1,497 students and other community members

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among 30 school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based upon a per pupil charge. The District contributed \$22,455 to NEOMIN for fiscal year 2004.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers, one from each county. The District was not represented on the Governing Board during fiscal year 2004. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 Park Avenue, Warren, Ohio, 44481.

North East Ohio Special Education Regional Resource Center (NEOSERRC)

NEOSERRC provides special education services at a regional level, as determined by each of the participating local schools.

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

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 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 member school districts. Each member pays a monthly premium based on use of the media materials.

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

Trumbull Career and Technical Center

The Trumbull Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 15 participating school district's elected boards, which possesses its own budgeting and taxing authority. Financial information may be obtained by contacting the Treasurer of the Trumbull Career and Technical Center, 528 Educational Highway, Warren, Ohio 44483.

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

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

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those accounted for in the classroom facilities fund; (b) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; and (c) for food service and uniform school supplies services; and (d) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each function within each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Trumbull County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, must be within the estimated resources as certified by the County Budget

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

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

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

Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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 budget amounts reflect the first appropriations that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

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

During fiscal year 2004 investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and U.S. government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$31,250, which includes \$22,916 assigned from other District funds.

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

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

G. Inventory

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

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

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

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

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

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold \$500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Other improvements	15 - 30 years
Buildings	15 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

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

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

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 15 years of service regardless of their age and all employees 60 years or older with seven or more years of service were considered expected to become eligible in accordance with GASB Statement No. 16.

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

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

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

K. Prepayments

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

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

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

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

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

M. Fund Balance Reserves

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

N. Net Assets

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

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount reserved for budget stabilization. See Note 16 for details.

Q. Interfund Activity

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

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

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

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

R. 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 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

A prior period adjustment is required at June 30, 2003 to properly state accrued interest receivable. This prior period adjustment had the following effect on fund balance as previously reported.

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance at June 30, 2003	\$ 3,358,063	\$ 16,287,256	\$ 1,128,570	\$ 20,773,889
Adjustment for interest receivable	(239,365)	(205,221)	-	(444,586)
Restated fund balance at July 1, 2003	\$ 3,118,698	\$ 16,082,035	\$ 1,128,570	\$ 20,329,303

This prior period adjustment had the following effect on net assets as previously reported:

Net assets at June 30, 2003	\$ 29,560,633
Adjustment for interest receivable	(444,586)
Restated net assets at July 1, 2003	\$ 29,116,047

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Summer Intervention	\$ 1,912
Title II - A	14,328

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

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

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

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

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

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$2,884,337 and the bank balance was \$3,057,933. Both balances include \$3,000,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$157,933 was covered by federal depository insurance; and
2. \$2,900,000 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

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

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

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

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 10,808,551	\$ 10,808,551	\$ 10,808,551
Federal agency securities	8,276,249	8,276,249	8,276,249
U.S. Government money market mutual funds	<u>-</u>	<u>810,903</u>	<u>810,903</u>
Total investments	<u>\$ 19,084,800</u>	<u>\$ 19,895,703</u>	<u>\$ 19,895,703</u>

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 22,780,040	\$ -
Investments of the cash management pool:		
Repurchase agreements	(10,808,551)	10,808,551
Federal agency securities	(8,276,249)	8,276,249
U.S. Government money market mutual funds	<u>(810,903)</u>	<u>810,903</u>
GASB Statement No. 3	<u>\$ 2,884,337</u>	<u>\$ 19,895,703</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 72,800

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. These interfund loans between governmental funds will be eliminated on the government-wide statements.

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

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2004 was \$30,160 in the general fund and \$9,241 in the nonmajor governmental funds. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$12,567 in the general fund and \$3,826 in the nonmajor governmental funds.

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

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

	<u>2003 Second Half Collections</u>		<u>2004 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 92,837,720	78.21	\$ 94,144,650	81.51
Public utility personal	12,169,070	10.25	10,829,670	9.38
General personal property	<u>13,693,280</u>	<u>11.54</u>	<u>10,527,088</u>	<u>9.11</u>
Total	<u>\$ 118,700,070</u>	<u>100.00</u>	<u>\$ 115,501,408</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 47.30		\$ 47.30	
Permanent improvements	3.90		3.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, 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 year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 5,203,185
Accounts	12,328
Intergovernmental	1,565,551
Accrued interest	<u>70,688</u>
Total	<u>\$ 6,851,752</u>

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

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

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

NOTE 8 - CAPITAL ASSETS

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

	Balance at <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>06/30/04</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 264,548	\$ 1,869	\$ -	\$ 266,417
Construction-in-progress	<u>1,861,258</u>	<u>8,393,250</u>	<u>-</u>	<u>10,254,508</u>
Total capital assets, not being depreciated	<u>2,125,806</u>	<u>8,395,119</u>	<u>-</u>	<u>10,520,925</u>
<i>Capital assets, being depreciated:</i>				
Other improvements	280,956	-	-	280,956
Buildings	5,749,578	-	-	5,749,578
Furniture and equipment	4,097,636	107,424	(73,936)	4,131,124
Vehicles	<u>1,117,877</u>	<u>243,128</u>	<u>(198,222)</u>	<u>1,162,783</u>
Total capital assets, being depreciated	<u>11,246,047</u>	<u>350,552</u>	<u>(272,158)</u>	<u>11,324,441</u>
<i>Less: accumulated depreciation:</i>				
Other improvements	(267,338)	(783)	-	(268,121)
Buildings	(4,075,425)	(82,225)	-	(4,157,650)
Furniture and equipment	(2,575,288)	(217,191)	42,600	(2,749,879)
Vehicles	<u>(567,326)</u>	<u>(95,668)</u>	<u>148,453</u>	<u>(514,541)</u>
Total accumulated depreciation	<u>(7,485,377)</u>	<u>(395,867)</u>	<u>191,053</u>	<u>(7,690,191)</u>
Governmental activities capital assets, net	<u>\$ 5,886,476</u>	<u>\$ 8,349,804</u>	<u>\$ (81,105)</u>	<u>\$ 14,155,175</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 174,625
Special	18,915
Vocational	3,963
<u>Support Services:</u>	
Pupil	12,199
Instructional staff	37,684
Administration	11,622
Fiscal	2,462
Operations and maintenance	12,254
Pupil transportation	95,871
Central	368
Extracurricular activities	6,480
Food service operations	<u>19,424</u>
Total depreciation expense	<u>\$ 395,867</u>

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

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

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
Series 2002, Improvement					
Current interest bonds					
2.0% - 5.0%, 12/01/24 maturity	\$ 8,335,000	\$ -	\$ (285,000)	\$ 8,050,000	\$ 290,000
Series 2002, Improvement					
Capital appreciation bonds					
10.548% (average effective)					
06/01/15 and 06/01/16 maturity	213,994	-	-	213,994	-
Series 2002, Improvement					
Capital appreciation bonds					
Accreted interest	<u>22,570</u>	<u>24,951</u>	<u>-</u>	<u>47,521</u>	<u>-</u>
Total general obligation bonds payable	<u>\$ 8,571,564</u>	<u>\$ 24,951</u>	<u>\$ (285,000)</u>	<u>\$ 8,311,515</u>	<u>\$ 290,000</u>
<u>Other Long-Term Obligations:</u>					
Asbestos Loan	\$ 46,288	\$ -	\$ (18,515)	\$ 27,773	\$ 18,515
Compensated absences	<u>763,293</u>	<u>330,761</u>	<u>(105,964)</u>	<u>988,090</u>	<u>67,180</u>
Total other long-term obligations	<u>\$ 809,581</u>	<u>\$ 330,761</u>	<u>\$ (124,479)</u>	<u>\$ 1,015,863</u>	<u>\$ 85,695</u>
Total governmental activities	<u>\$ 9,381,145</u>	<u>\$ 355,712</u>	<u>\$ (409,479)</u>	<u>\$ 9,327,378</u>	<u>\$ 375,695</u>

Asbestos Loan: The District received an interest free loan for asbestos assistance with the United States Environmental Protection Agency. Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a loan of \$333,276 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$9,258 every six months, with the first payment made in June 1988 and the final amount due December 2005.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The future annual payments due on the asbestos assistance loan at June 30, 2004 are as follows:

<u>Year Ended</u>	<u>Payment</u>
2005	\$ 18,515
2006	<u>9,258</u>
Total	<u>\$ 27,773</u>

General Obligation Bonds: During fiscal year 2002, the District issued general obligation bonds to provide funds for the construction of one new combination building to house grades 3 thru 12; abandon allowance for demolishing and abating Leavitt and Vaughan elementaries and LaBrae High schools (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund (a nonmajor governmental fund). The source of payment is derived from a current 5.4 mill bonded debt tax levy for the construction project.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2004, the total estimated cost of the Construction Project is \$28,739,711, of which OSFC will pay \$19,830,711.

In conjunction with the 5.4 mills which support the bond issue, the District also passed in fiscal 2002 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the facilities maintenance special revenue fund (a nonmajor governmental fund).

This issue is comprised of both current interest bonds, par value \$8,695,000, and capital appreciation bonds, par value \$870,000. The interest rates on the current interest bonds range from 2.00% to 5.00%. The capital appreciation bonds mature on December 1, 2015 and December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The effective interest rate on the capital appreciation bonds is 10.548%. The present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$261,515. A total of \$47,521 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2004. The current interest bonds maturing on or after December 1, 2013 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
On or after December 1, 2013	100% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 290,000	\$ 349,053	\$ 639,053	\$ -	\$ -	\$ -
2006	300,000	341,078	641,078	-	-	-
2007	310,000	331,922	641,922	-	-	-
2008	320,000	321,677	641,677	-	-	-
2009	330,000	310,215	640,215	-	-	-
2010 - 2014	1,850,000	1,339,876	3,189,876	-	-	-
2015 - 2019	1,305,000	1,010,087	2,315,087	870,000	-	870,000
2020 - 2024	2,635,000	518,265	3,153,265	-	-	-
2025	710,000	17,750	727,750	-	-	-
Total	<u>\$ 8,050,000</u>	<u>\$ 4,539,923</u>	<u>\$ 12,589,923</u>	<u>\$ 870,000</u>	<u>\$ -</u>	<u>\$ 870,000</u>

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$2,267,850 (including available funds of \$184,242) and an unvoted debt margin of \$115,501.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. The District accounts for compensated absence liability in accordance with GASB 16. The District has determined the vesting method of calculation to be the most appropriate method to compute the estimate.

Vacation Leave - Unused vacation, to a maximum of 5 days, shall be paid to any 12 month classified employee with the first pay in July with the exception of the Superintendent, Administrative Assistant and Treasurer. The District has determined that available vacation leave is subject to accrual based upon the vacation leave balances at June 30.

The Superintendent, Treasurer and Administrative Assistant shall be paid a salary based on 224 working days. If it becomes necessary for these employees to work more than 224 days, they will be compensated based at a per diem rate for each additional day worked, not to exceed 15 days. However, they will not be additionally compensated for unused vacation pay.

Only administrative and support personnel who are under a full year contract (260 days) are eligible for vacation time.

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

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

NOTE 10 - COMPENSATED ABSENCES - (Continued)

Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Classified, 12-month employees can be paid for one week of vacation if unused at June 30.

The classified personnel accumulate vacation based on the following schedule:

Years of Service	Vacation Days
1 - 7	10
8 - 14	15
15 - 21	20
22 - beyond	25

Sick Leave - Each employee earns sick leave at a rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation is 405 days for classified employees and 420 days for certified employees.

Severance Pay - Based upon District negotiated agreements an employee upon retirement from active service is eligible to receive a portion of their sick leave. Based upon past historical trends, it has been determined that an employee with 15 or more years of vested service will be eligible for severance pay (any age) or employee over 60 with seven or more years of service (STRS/SERS vested). An analysis of all employees has been made to determine those with 15 or more years of service or 60 or older. The negotiated agreements and calculation follows:

Certified Employees: Severance pay shall be a one-time lump sum payment under either of the following provisions: (1) the certified employee retires from the school system. To receive additional benefits as calculated below, the certified employee must have been employed by the District for 7 or more years; or (2) the certified employee resigns with 15 or more years of service to the District. Severance shall be calculated on a graduated scale: 50% of the first 60 days = 30 days; 5% of days 61 - 200 = 7 days; 12.85% of days 201 - 270 = 9 days; 25% of days 271 - 318 = 12 days; over 318 days = 4 - 10 days, up to a maximum of 68 days.

Classified Employees: Severance pay shall be a one-time lump sum payment under either of the following provisions: (1) the classified employee retires from the school system. To receive additional benefits as calculated below, the classified employee must have been employed by the District for 7 or more years; or (2) the classified employee resigns with 15 or more years of service to the District. Severance shall be calculated on a graduated scale: 50% of the first 60 days = 30 days; 5% of days 61 - 200 = 7 days; 12.85% of 201 - 270 = 9 days; 25% of days 271 - 318 = 12 days; over 318 days = 4 - 10 days, up to a maximum of 68 days.

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

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

NOTE 11 - RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. In addition, the District maintains a \$1,000,000 umbrella liability policy.

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

The District maintains replacement cost insurance on buildings and contents in the amount of \$42,064,449.

B. Workers' Compensation

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

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

C. Shared Risk Pool

Trumbull County Insurance Consortium - The District participates in the Trumbull County Insurance Consortium. This is a shared risk pool comprised of 16 Trumbull County school districts. The Consortium is governed by an assembly which consists on one representative from each participating school district (usually the Superintendent or designee). The assembly elects officers for one-year terms to service as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$140,437, \$135,788, and \$174,768, respectively; 32.94% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$94,176, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salary and the District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$726,249, \$705,743, and \$734,352, respectively; 82.35% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$128,212, represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$51,875 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. As of June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004 net health care costs paid by STRS were \$368.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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, 2004 employer contributions to fund health care benefits were 4.91% of covered payroll, a decrease of .92% from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$63,798 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

	General Fund
Budget basis	\$ (1,070,130)
Net adjustment for revenue accruals	(41,830)
Net adjustment for expenditure accruals	297,645
Net adjustment for other sources/uses	(80,127)
GAAP basis	\$ (894,442)

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a defendant in a legal proceeding pertaining to matters which are incidental to performing routine governmental and other functions. Based on the status of this legal proceeding, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements.

C. State School Funding Decision

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

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

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

NOTE 15 – CONTINGENCIES – (Continued)

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

NOTE 16 - STATUTORY RESERVES

The 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization.

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (2,385)	\$ -	\$ 46,436
Current year set-aside requirement	209,855	209,855	-
Qualifying disbursements	<u>(211,477)</u>	<u>(285,008)</u>	<u>-</u>
Total	<u>\$ (4,007)</u>	<u>\$ (75,153)</u>	<u>\$ 46,436</u>
Balance carried forward to FY 2005	<u>\$ (4,007)</u>	<u>\$ -</u>	<u>\$ 46,436</u>
Total restricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,436</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carrier forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	<u>\$ 46,436</u>
Total restricted assets	<u>\$ 46,436</u>

This page intentionally left blank.

LABRAE LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through The Ohio Department of Education.</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550		\$55,096		\$55,096
National School Breakfast Program		10.553	\$67,284		\$67,284	
National School Lunch Program		10.555	213,801		213,801	
Total U.S. Department of Agriculture -- Nutrition Cluster			281,085	55,096	281,085	55,096
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through The Ohio Department of Education.</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 03 C1-S1 04	84.010	36,688		72,298	
			368,022		334,541	
Sub-total -- Title I School Subsidy			404,710		406,839	
<i>Special Education Grants Cluster:</i>						
Title VI - B Special Education Grants to States	6B-SF-2003 6B-SF-2004	84.027	22,839		21,835	
			177,160		173,739	
Sub-total -- Special Education Grants Cluster			199,999		195,574	
Safe and Drug Free Schools Grant	DR-S1-2004	84.186	12,892		12,892	
Innovative Education Program Strategies Chapter 2 Subsidy	CS-S1 2004	84.298	8,860		8,860	
Title II-D, Technology	TJS1-2004	84.318	11,152		8,639	
School Net Infusion Grant	ATS4	84.352	670		26,135	
Title II-A, Improving Teacher Quality	TRS1-2003 TRS1-2004	84.367	14,037		16,869	
			104,116		98,270	
Subtotal -- Title II-A			118,153		115,139	
Total -- U.S. Department of Education			756,436		774,078	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Human Services. Passed Through Ohio Department of Mental Retardation and Development Disabilities</i>						
<i>Medicaid Cluster:</i>						
Medical Assistance Program - TitleXIX - Community Alternative Funding System (CAFS)		93.778	0		8,555	
Totals			\$ 1,037,521	\$ 55,096	\$ 1,063,718	\$ 55,096

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

**LABRAE LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

LaBrae Local School District
Trumbull County
4615 West Market Street
Leavittsburg, Ohio 44430

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of LaBrae Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

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

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

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

Betty Montgomery
Auditor of State

March 31, 2005



Auditor of State Betty Montgomery

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

LaBrae Local School District
Trumbull County
4615 West Market Street
Leavittsburg, Ohio 44430

To the Board of Education:

Compliance

We have audited the compliance of LaBrae Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 31, 2005

**LABRAE LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA Nos. 10.550, 10.553, and 10.555 – Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LABRAE 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 5, 2005**