



**Auditor of State  
Betty Montgomery**



**MATHEWS LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

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

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mathews 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form an opinion on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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

April 20, 2005

**MATHEWS 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 Mathews Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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 increased \$379,170. Net assets of governmental activities increased \$364,863, which represents an 11.39% increase from 2003. Net assets of business-type activities increased \$14,307 or 25.82% from 2003.
- General revenues accounted for \$7,933,262 in revenue or 91.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$756,771 or 8.71% of total revenues of \$8,690,033.
- The District had \$8,299,559 in expenses related to governmental activities; only \$756,771 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 \$7,933,262 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$7,782,668 in revenues and \$7,665,305 in expenditures and other financing uses. The general fund's fund balance increased from \$681,234 to \$798,597.
- The permanent improvement fund had \$169,525 in revenues and \$222,937 in expenditures. The permanent improvement fund's fund balance decreased from \$104,220 to \$50,808.
- Net assets for the District's two enterprise funds increased \$14,307. The enterprise funds had \$276,717 in revenues, \$288,021 in expenses and \$25,611 in transfers in.

**Using these Basic Financial Statements (BFS)**

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

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

**MATHEWS 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.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

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

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

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.



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

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

***Proprietary Funds***

The District maintains proprietary funds. The District maintains two enterprise funds that account for the District's food service and uniform school supplies operations. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

**Reporting the District's Fiduciary Responsibilities**

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 26. 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 27-54 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 compared to fiscal 2003.

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b><u>Assets</u></b>						
Current assets	\$ 7,023,800	\$ 6,768,982	\$ 14,531	\$ 12,617	\$ 7,038,331	\$ 6,781,599
Capital assets	<u>3,314,261</u>	<u>3,244,290</u>	<u>1,431</u>	<u>1,831</u>	<u>3,315,692</u>	<u>3,246,121</u>
Total assets	<u>10,338,061</u>	<u>10,013,272</u>	<u>15,962</u>	<u>14,448</u>	<u>10,354,023</u>	<u>10,027,720</u>
<b><u>Liabilities</u></b>						
Current liabilities	5,352,037	5,364,651	19,766	33,405	5,371,803	5,398,056
Long-term liabilities	<u>1,418,472</u>	<u>1,445,932</u>	<u>37,301</u>	<u>36,455</u>	<u>1,455,773</u>	<u>1,482,387</u>
Total liabilities	<u>6,770,509</u>	<u>6,810,583</u>	<u>57,067</u>	<u>69,860</u>	<u>6,827,576</u>	<u>6,880,443</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of debt	3,032,849	2,896,919	1,431	1,831	3,034,280	2,898,750
Restricted	181,305	200,684	-	-	181,305	200,684
Unrestricted	<u>353,398</u>	<u>105,086</u>	<u>(42,536)</u>	<u>(57,243)</u>	<u>310,862</u>	<u>47,843</u>
Total net assets	<u>\$ 3,567,552</u>	<u>\$ 3,202,689</u>	<u>\$ (41,105)</u>	<u>\$ (55,412)</u>	<u>\$ 3,526,447</u>	<u>\$ 3,147,277</u>

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

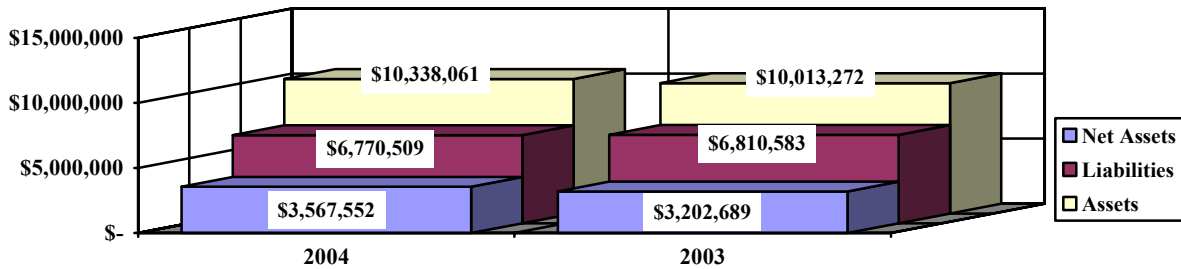
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

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 \$3,567,552.

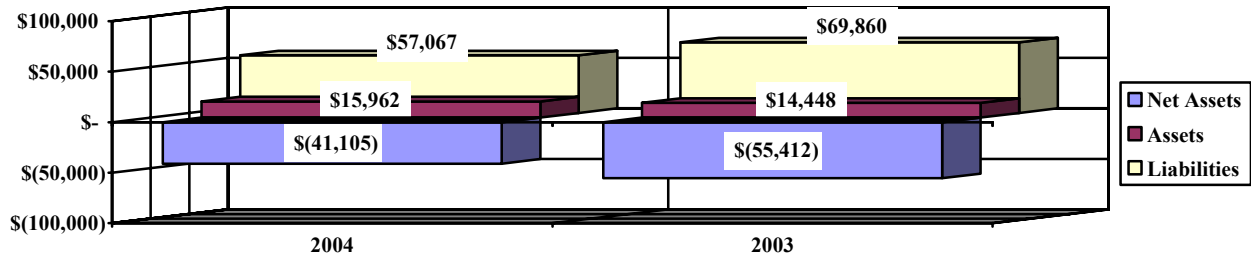
At year-end, capital assets represented 32.02% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2004, was \$3,032,849. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$181,305, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$353,398 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental - Net Assets**



**Business-Type - Net Assets**



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2004 compared to fiscal year 2003.

**MATHEWS 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		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 280,106	\$ 183,644	\$ 204,943	\$ 203,025	\$ 485,049	\$ 386,669
Operating grants and contributions	316,255	258,358	71,774	94,927	388,029	353,285
Capital grants and contributions	160,410	77,944	-	-	160,410	77,944
General revenues:						
Property taxes	4,530,916	4,290,992	-	-	4,530,916	4,290,992
Grants and entitlements	3,374,309	3,253,322	-	-	3,374,309	3,253,322
Investment earnings	21,064	31,404	-	-	21,064	31,404
Other	6,973	400	-	-	6,973	400
<b>Total revenues</b>	<b>8,690,033</b>	<b>8,096,064</b>	<b>276,717</b>	<b>297,952</b>	<b>8,966,750</b>	<b>8,394,016</b>
<b>Expenses</b>						
Program expenses:						
Instruction:						
Regular	3,888,734	3,772,930	-	-	3,888,734	3,772,930
Special	665,401	750,751	-	-	665,401	750,751
Vocational	162,676	150,198	-	-	162,676	150,198
Other	3	-	-	-	3	-
Support services:						
Pupil	581,480	494,766	-	-	581,480	494,766
Instructional staff	359,320	309,660	-	-	359,320	309,660
Board of Education	53,374	118,957	-	-	53,374	118,957
Administration	624,166	678,420	-	-	624,166	678,420
Fiscal	318,041	250,045	-	-	318,041	250,045
Operations and maintenance	856,837	814,983	-	-	856,837	814,983
Pupil transportation	487,601	522,096	-	-	487,601	522,096
Central	122,805	112,055	-	-	122,805	112,055
Extracurricular activities	170,006	166,240	-	-	170,006	166,240
Interest and fiscal charges	9,115	11,753	-	-	9,115	11,753
Food service	-	-	266,794	313,115	266,794	313,115
Uniform school supplies	-	-	21,227	20,890	21,227	20,890
<b>Total expenses</b>	<b>8,299,559</b>	<b>8,152,854</b>	<b>288,021</b>	<b>334,005</b>	<b>8,587,580</b>	<b>8,486,859</b>
Excess (deficiency) before transfers	390,474	(56,790)	(11,304)	(36,053)	379,170	(92,843)
Transfers	(25,611)	(22,173)	25,611	22,173	-	-
<b>Changes in net assets</b>	<b>\$ 364,863</b>	<b>\$ (78,963)</b>	<b>\$ 14,307</b>	<b>\$ (13,880)</b>	<b>\$ 379,170</b>	<b>\$ (92,843)</b>

**Governmental Activities**

Net assets of the District's governmental activities increased by \$364,863. Total governmental expenses of \$8,299,599 were offset by program revenues of \$756,771 and general revenues of \$7,933,262. Program revenues supported 9.12% of the total governmental expenses.

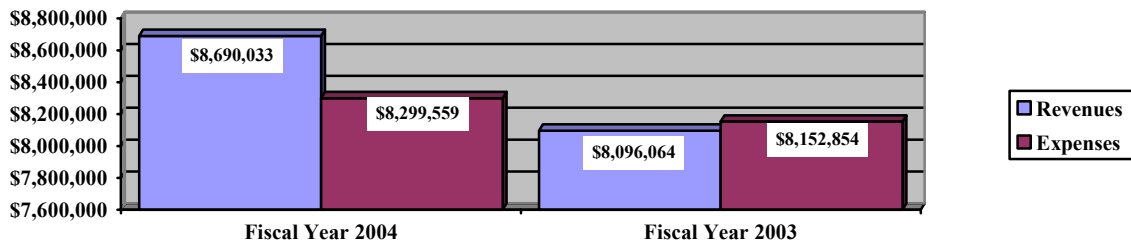
**MATHEWS LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 90.97% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 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 for 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities**

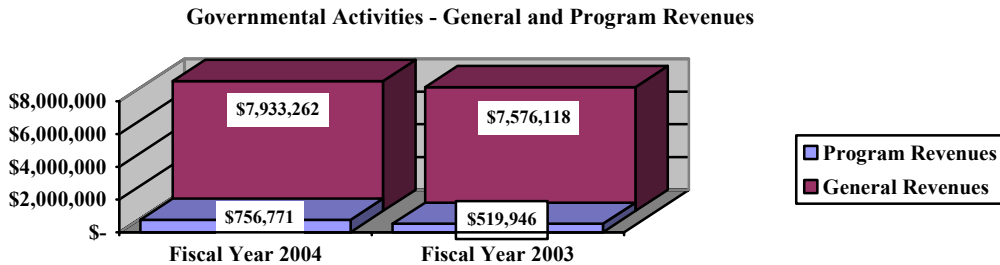
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses:				
Instruction:				
Regular	\$ 3,888,734	\$ 3,672,294	\$ 3,772,930	\$ 3,708,244
Special	665,401	502,311	750,751	452,623
Vocational	162,676	162,676	150,198	150,198
Other	3	3	-	-
Support services:				
Pupil	581,480	536,436	494,766	487,901
Instructional staff	359,320	317,488	309,660	298,186
Board of Education	53,374	53,374	118,957	118,957
Administration	624,166	623,518	678,420	673,420
Fiscal	318,041	317,674	250,045	250,045
Operations and maintenance	856,837	643,899	814,983	757,555
Pupil transportation	487,601	484,348	522,096	498,451
Central	122,805	105,917	112,055	112,055
Extracurricular activities	170,006	113,735	166,240	113,520
Interest and fiscal charges	9,115	9,115	11,753	11,753
<b>Total expenses</b>	<b><u>\$ 8,299,559</u></b>	<b><u>\$ 7,542,788</u></b>	<b><u>\$ 8,152,854</u></b>	<b><u>\$ 7,632,908</u></b>

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

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

The dependence upon tax revenues during fiscal year 2004 for governmental activities is apparent, as 91.95% of 2004 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support is 90.88% in 2004. The District's taxpayers, as a whole, is by far the primary support for District's students.

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



**Business-Type Activities**

Business-type activities include the food service and uniform school supplies operations. These programs had revenues of \$276,717 and expenses of \$288,021 for fiscal year 2004. During fiscal year 2004, the District took steps to reduce expenses, including renegotiating vendor agreements. The District's business activities receive no support from tax revenues.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$881,445, which is above last year's total of \$864,494. 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>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 798,597	\$ 681,234	\$ 117,363
Permanent Improvement	50,808	104,220	(53,412)
Other Governmental	<u>32,040</u>	<u>79,040</u>	<u>(47,000)</u>
Total	<u>\$ 881,445</u>	<u>\$ 864,494</u>	<u>\$ 16,951</u>

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

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

The District's general fund balance increased by \$117,363, due primarily to a higher increase in revenues than in expenses. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 4,212,256	\$ 4,104,220	2.63 %
Interest earnings	20,743	31,404	(33.95) %
Intergovernmental	3,374,309	3,255,599	3.65 %
Other revenues	<u>175,360</u>	<u>83,406</u>	110.25 %
Total	<u>\$ 7,782,668</u>	<u>\$ 7,474,629</u>	4.12 %
<b><u>Expenditures</u></b>			
Instruction	\$ 4,315,528	\$ 4,248,247	1.58 %
Support services	<u>3,162,119</u>	<u>3,116,206</u>	1.47 %
Total	<u>\$ 7,477,647</u>	<u>\$ 7,364,453</u>	1.54 %

***Permanent Improvement Fund***

The permanent improvement fund had \$169,525 in revenues and \$222,937 in expenditures. The permanent improvement fund's fund balance decreased from \$104,220 to \$50,808.

***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, none significant. For the general fund, final budgeted revenues and other financing sources were \$5,130, above original budget estimates of \$7,736,330. The actual revenues and other financing sources were \$7,933,445, which were \$191,985 more than final budgeted revenues and other financing sources.

General fund original appropriations (expenditures and other financing uses) of \$8,139,355 were decreased to \$8,037,409 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$7,882,241, which was \$155,168 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the final budget.

**MATHEWS 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 \$3,315,692 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Of this total, \$3,314,261 was reported in governmental activities and \$1,431 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 363,767	\$ 363,767	\$ -	\$ -	\$ 363,767	\$ 363,767
Land improvements	377,055	178,142	-	-	377,055	178,142
Building and improvements	1,652,101	1,683,550	-	-	1,652,101	1,683,550
Furniture and equipment	519,005	596,229	1,431	1,831	520,436	598,060
Vehicles	270,391	266,114	-	-	270,391	266,114
Textbooks	131,942	156,488	-	-	131,942	156,488
Total	<u>\$ 3,314,261</u>	<u>\$ 3,244,290</u>	<u>\$ 1,431</u>	<u>\$ 1,831</u>	<u>\$ 3,315,692</u>	<u>\$ 3,246,121</u>

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

***Debt Administration***

At June 30, 2004 the District had \$281,410 in capital lease obligations and an asbestos loan outstanding. Of this total, \$68,961 is due within one year and \$212,449 is due within greater than one year. The following table summarizes the lease obligations and loan outstanding.

**Outstanding Debt, at Year End**

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
Capital lease obligation	\$ 177,000	\$ 230,000
Asbestos loan	104,410	117,371
Total	<u>\$ 281,410</u>	<u>\$ 347,371</u>

At June 30, 2004 the District's overall legal debt margin was \$12,310,746 with an unvoted debt margin of \$136,786.

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

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

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

**Current Financial Related Activities**

As the preceding information shows, the School District is heavily reliant on the local property taxpayers. In November 2003, the voters approved a 9.76 mill replacement and decrease current expense levy with a 55% affirmative vote. This levy replaces the 12.68 mill levy that was approved by the voters in May 1999. It will generate approximately \$1,322,000 per year effective January 2005. The School District does not anticipate placing any new levies on the ballot. It does, however, require renewal of an 8.7 mill current expense levy in May 2005 to have a secure future.

The tax base grew slightly over the past year. The total assessed value went from \$135.5 million in 2003 to \$136.8 million in 2004, an increase of approximately one percent. The new Delphi Automotive plant in Vienna Township accounts for the majority of this increase. Residential property and farms contribute over 78 percent of the District's valuation.

ATD Corporation filed Chapter 11 papers in 2002. To date, the total tax loss to the District from that bankruptcy is \$780,925. With a bankruptcy settlement, real estate taxes will be paid first. It is anticipated that the District will recoup some of this lost income in the future.

The County Auditor has valued the new Delphi Automotive Systems plant in Vienna Township. The District is receiving approximately \$26,100 annually in real estate tax revenue from this abated plant. In October 2004, the District received approximately \$119,800 in the form of personal property taxes from Delphi. It is expected that this personal property tax revenue will decrease each year as the value of the equipment declines due to depreciation.

The Mathews Local School District became a "guarantee" district in fiscal year 2000. A guarantee district receives additional State Foundation aid on top of the current year's calculated amount to bring the district up to the fiscal year 1998 funding level. The current year's calculated amount of State aid is based on the number of pupils times the per pupil amount times the State share. The State share is determined by the property valuation of the District. A higher property valuation equals a lower State share. Because Mathews' student population has declined since 1999 and the property value of the District has risen, the calculated amount of State aid has also declined. The Ohio Department of Education estimates that the District will receive \$179,200 in additional State aid in 2005 due to the guarantee. The State legislature decides with every biennial budget whether they will continue the guarantee. The discontinuance of the guarantee would have an unfavorable impact on the District's finances in the future.

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

The Mathews Local School District has four aging buildings. The Ohio School Facilities Commission currently ranks Mathews 436 out of 613 districts in the state to receive classroom facilities funds. In other words, 435 school districts will receive funds before Mathews does. This ranking is based on property tax valuation per pupil. Because of this ranking, it is not anticipated that the District will receive any construction funds from the State of Ohio until 2008 at the earliest. The Ohio School Facilities Commission determined the local share of the Mathews taxpayers to be 72% with the State of Ohio contributing only 28% to any new or remodeled facilities.



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

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

Retirement of employees can have a large financial impact on all school districts. School districts pay much higher wages to employees with a large number of years of service. The District can save as much as \$39,000 per year on each retired certified employee replaced with a new, less-experienced certified employee. Some of that savings is negated due to severance benefits, but still a sizeable savings can be realized. The District has 15 certified and 9 classified employees, who are eligible to retire. These retirements will have a favorable impact on the District's finances in the future.

Premiums for property, fleet, and liability insurance have increased and health care insurance continues to be a source of concern. The health care consortium to which the District belongs has decided to increase premiums by 9.9% effective January 2005. This increase will cost the District approximately \$97,200 per year based on current staff. Health care cost containment has become a large issue for the future. The School District is currently seeking alternative sources of benefits and alternative benefit plans in an effort to offset anticipated premium increases.

Another rising cost to the District is special education. The District has a contract for special education services with the Trumbull County Educational Service Center. The District was notified in September 2004 that its expenditures for fiscal year 2004 were \$52,123 higher than projected by the County. In that regard, the contract for special education services for fiscal year 2005 has been increased by \$67,800. The combination of these two increases results in the District's special education expenditure for fiscal year 2005 to be at least \$119,923 more than the previous year.

In conclusion, the Mathews Local School District is committed to quality financial reporting. The District realizes that prudent management will be necessary in order to continue to provide the resources necessary to meet student needs while diligently controlling the increasing expenditures in salaries, benefits, and special education.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Teri Andrika, Treasurer, Mathews Local School District, 4434-B Warren Sharon Road, Vienna, Ohio, 44473-9644.

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

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . .	\$ 1,692,525	\$ 1,069	\$ 1,693,594
Receivables:			
Taxes . . . . .	5,249,774	-	5,249,774
Accounts . . . . .	1,993	-	1,993
Intergovernmental . . . . .	13,895	8,407	22,302
Accrued interest . . . . .	1,229	-	1,229
Prepayments . . . . .	37,793	-	37,793
Materials and supplies inventory . . . . .	26,591	5,055	31,646
Capital assets:			
Land . . . . .	363,767	-	363,767
Depreciable capital assets, net . . . . .	2,950,494	1,431	2,951,925
Total capital assets, net . . . . .	<u>3,314,261</u>	<u>1,431</u>	<u>3,315,692</u>
Total assets . . . . .	<u>10,338,061</u>	<u>15,962</u>	<u>10,354,023</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	40,477	760	41,237
Accrued wages and benefits . . . . .	667,815	16,830	684,645
Pension obligation payable . . . . .	114,446	1,060	115,506
Intergovernmental payable . . . . .	16,863	1,116	17,979
Deferred revenue . . . . .	4,512,436	-	4,512,436
Long-term liabilities:			
Due within one year . . . . .	146,929	-	146,929
Due in more than one year . . . . .	1,271,543	37,301	1,308,844
Total liabilities . . . . .	<u>6,770,509</u>	<u>57,067</u>	<u>6,827,576</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt . . . . .	3,032,849	1,431	3,034,280
Restricted for:			
Capital projects . . . . .	74,368	-	74,368
Other purposes . . . . .	106,937	-	106,937
Unrestricted (deficit) . . . . .	<u>353,398</u>	<u>(42,536)</u>	<u>310,862</u>
Total net assets (deficit) . . . . .	<u>\$ 3,567,552</u>	<u>\$ (41,105)</u>	<u>\$ 3,526,447</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 3,888,734	\$ 154,236	\$ 59,354	\$ 2,850
Special . . . . .	665,401	-	163,090	-
Vocational . . . . .	162,676	-	-	-
Adult . . . . .	3	-	-	-
Support services:				
Pupil . . . . .	581,480	-	44,612	432
Instructional staff . . . . .	359,320	9,305	32,527	-
Board of education . . . . .	53,374	-	-	-
Administration . . . . .	624,166	-	-	648
Fiscal . . . . .	318,041	-	-	367
Operations and maintenance . . . . .	856,837	57,216	-	155,722
Pupil transportation . . . . .	487,601	3,078	-	175
Central . . . . .	122,805	-	16,672	216
Extracurricular activities . . . . .	170,006	56,271	-	-
Interest and fiscal charges . . . . .	9,115	-	-	-
Total governmental activities . . . . .	<u>\$ 8,299,559</u>	<u>\$ 280,106</u>	<u>\$ 316,255</u>	<u>\$ 160,410</u>
<b>Business-type activities:</b>				
Food service . . . . .	266,794	184,107	71,774	-
Uniform school supplies . . . . .	21,227	20,836	-	-
Total business-type activities . . . . .	<u>288,021</u>	<u>204,943</u>	<u>71,774</u>	<u>-</u>
Totals . . . . .	<u>\$ 8,587,580</u>	<u>\$ 485,049</u>	<u>\$ 388,029</u>	<u>\$ 160,410</u>

**General Revenues:**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (3,672,294)	\$ -	\$ (3,672,294)
(502,311)	-	(502,311)
(162,676)	-	(162,676)
(3)	-	(3)
(536,436)	-	(536,436)
(317,488)	-	(317,488)
(53,374)	-	(53,374)
(623,518)	-	(623,518)
(317,674)	-	(317,674)
(643,899)	-	(643,899)
(484,348)	-	(484,348)
(105,917)	-	(105,917)
(113,735)	-	(113,735)
(9,115)	-	(9,115)
<u>(7,542,788)</u>	<u>-</u>	<u>(7,542,788)</u>
-	(10,913)	(10,913)
-	(391)	(391)
<u>-</u>	<u>(11,304)</u>	<u>(11,304)</u>
<u>(7,542,788)</u>	<u>(11,304)</u>	<u>(7,554,092)</u>
4,373,634	-	4,373,634
157,282	-	157,282
3,374,309	-	3,374,309
21,064	-	21,064
6,973	-	6,973
<u>7,933,262</u>	<u>-</u>	<u>7,933,262</u>
<u>(25,611)</u>	<u>25,611</u>	<u>-</u>
<u>7,907,651</u>	<u>25,611</u>	<u>7,933,262</u>
364,863	14,307	379,170
<u>3,202,689</u>	<u>(55,412)</u>	<u>3,147,277</u>
<u>\$ 3,567,552</u>	<u>\$ (41,105)</u>	<u>\$ 3,526,447</u>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 1,509,439	\$ 56,157	\$ 106,413	\$ 1,672,009
Receivables:				
Taxes . . . . .	5,073,373	176,401	-	5,249,774
Accounts . . . . .	694	-	1,299	1,993
Intergovernmental . . . . .	-	-	13,895	13,895
Accrued interest . . . . .	1,229	-	-	1,229
Interfund loans . . . . .	2,000	-	-	2,000
Prepayments . . . . .	37,793	-	-	37,793
Materials and supplies inventory . . . . .	26,591	-	-	26,591
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	20,516	-	-	20,516
Total assets . . . . .	<u>\$ 6,671,635</u>	<u>\$ 232,558</u>	<u>\$ 121,607</u>	<u>\$ 7,025,800</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 16,608	\$ 1,514	\$ 22,355	\$ 40,477
Accrued wages and benefits . . . . .	653,174	4,042	10,599	667,815
Compensated absences payable . . . . .	28,658	-	52,208	80,866
Pension obligation payable. . . . .	53,656	566	847	55,069
Intergovernmental payable. . . . .	16,173	49	641	16,863
Interfund loans payable . . . . .	-	-	2,000	2,000
Deferred revenue. . . . .	5,104,769	175,579	917	5,281,265
Total liabilities . . . . .	<u>5,873,038</u>	<u>181,750</u>	<u>89,567</u>	<u>6,144,355</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	57,678	14,007	33	71,718
Reserved for materials and supplies inventory. . . . .	26,591	-	-	26,591
Reserved for prepayments . . . . .	37,793	-	-	37,793
Reserved for property tax unavailable for appropriation . . . . .	23,614	822	-	24,436
Unreserved, undesignated, reported in:				
General fund . . . . .	652,921	-	-	652,921
Special revenue funds. . . . .	-	-	32,007	32,007
Capital projects funds. . . . .	-	35,979	-	35,979
Total fund balances . . . . .	<u>798,597</u>	<u>50,808</u>	<u>32,040</u>	<u>881,445</u>
Total liabilities and fund balances . . . . .	<u>\$ 6,671,635</u>	<u>\$ 232,558</u>	<u>\$ 121,607</u>	<u>\$ 7,025,800</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

<b>Total governmental fund balances</b>		\$ 881,445
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,314,261
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 767,912	
Intergovernmental revenue	917	
Total		768,829
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,056,196	
Pension obligation payable	59,377	
Asbestos loan payable	104,410	
Capital lease obligation	177,000	
Total		(1,396,983)
<b>Net assets of governmental activities</b>		<b>\$ 3,567,552</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 4,212,256	\$ 149,418	\$ -	\$ 4,361,674
Tuition. . . . .	104,571	-	-	104,571
Earnings on investments. . . . .	20,743	-	321	21,064
Classroom materials and fees . . . . .	6,852	-	-	6,852
Extracurricular. . . . .	-	-	107,922	107,922
Other local revenues. . . . .	63,937	-	1,105	65,042
Intergovernmental - Intermediate . . . . .	-	-	2,692	2,692
Intergovernmental - State. . . . .	3,374,309	20,107	51,514	3,445,930
Intergovernmental - Federal . . . . .	-	-	404,127	404,127
Total revenue . . . . .	<u>7,782,668</u>	<u>169,525</u>	<u>567,681</u>	<u>8,519,874</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,650,900	20,955	148,797	3,820,652
Special. . . . .	509,129	-	161,256	670,385
Vocational. . . . .	155,496	-	-	155,496
Adult. . . . .	3	-	-	3
Support services:				
Pupil. . . . .	543,222	3,176	44,584	590,982
Instructional staff . . . . .	291,067	-	41,472	332,539
Board of education . . . . .	53,374	-	-	53,374
Administration. . . . .	633,857	4,764	-	638,621
Fiscal . . . . .	295,608	2,696	-	298,304
Operations and maintenance. . . . .	757,899	113,395	193,107	1,064,401
Pupil transportation . . . . .	497,468	1,287	2,845	501,600
Central. . . . .	89,624	1,588	17,014	108,226
Extracurricular activities. . . . .	-	-	167,653	167,653
Debt service:				
Principal retirement . . . . .	-	65,961	-	65,961
Interest and fiscal charges . . . . .	-	9,115	-	9,115
Total expenditures . . . . .	<u>7,477,647</u>	<u>222,937</u>	<u>776,728</u>	<u>8,477,312</u>
Excess of revenues over (under) expenditures . . . . .	<u>305,021</u>	<u>(53,412)</u>	<u>(209,047)</u>	<u>42,562</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	162,047	162,047
Transfers (out). . . . .	(187,658)	-	-	(187,658)
Total other financing sources (uses) . . . . .	<u>(187,658)</u>	<u>-</u>	<u>162,047</u>	<u>(25,611)</u>
Net change in fund balances . . . . .	117,363	(53,412)	(47,000)	16,951
<b>Fund balances at beginning of year . . . . .</b>	<u>681,234</u>	<u>104,220</u>	<u>79,040</u>	<u>864,494</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 798,597</u>	<u>\$ 50,808</u>	<u>\$ 32,040</u>	<u>\$ 881,445</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

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

<b>Net change in fund balances - total governmental funds</b>	\$	16,951
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$363,786) exceed depreciation expense (\$263,265) in the current period.		100,521
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(30,550)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		170,159
Repayment of loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		65,961
Some expenses reported on the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		41,821
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>364,863</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 4,118,422	\$ 4,121,153	\$ 4,223,356	\$ 102,203
Tuition. . . . .	101,972	102,040	104,571	2,531
Earnings on investments. . . . .	21,730	21,744	22,283	539
Classroom materials and fees . . . . .	6,653	6,657	6,822	165
Other local revenues . . . . .	61,828	61,869	63,403	1,534
Intergovernmental - State . . . . .	3,298,970	3,301,158	3,383,025	81,867
Total revenue . . . . .	<u>7,609,575</u>	<u>7,614,621</u>	<u>7,803,460</u>	<u>188,839</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,871,306	3,793,463	3,722,940	70,523
Special. . . . .	533,511	534,649	522,472	12,177
Vocational. . . . .	161,866	161,621	156,663	4,958
Adult . . . . .	706	706	3	703
Support services:				
Pupil. . . . .	553,267	570,056	553,680	16,376
Instructional staff . . . . .	284,315	302,043	288,850	13,193
Board of education . . . . .	90,951	64,854	58,884	5,970
Administration. . . . .	631,554	638,804	620,214	18,590
Fiscal . . . . .	300,808	314,688	305,855	8,833
Operations and maintenance. . . . .	893,732	794,277	753,420	40,857
Pupil transportation . . . . .	568,457	547,672	519,627	28,045
Central. . . . .	95,922	97,592	90,094	7,498
Total expenditures . . . . .	<u>7,986,395</u>	<u>7,820,425</u>	<u>7,592,702</u>	<u>227,723</u>
Excess of revenues over (under) expenditures. . . . .	<u>(376,820)</u>	<u>(205,804)</u>	<u>210,758</u>	<u>416,562</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	56,207	56,244	57,639	1,395
Transfers (out) . . . . .	(152,960)	(216,984)	(215,193)	1,791
Advances in. . . . .	70,548	70,595	72,346	1,751
Advances (out) . . . . .	-	-	(74,346)	(74,346)
Total other financing sources (uses) . . . . .	<u>(26,205)</u>	<u>(90,145)</u>	<u>(159,554)</u>	<u>(69,409)</u>
Net change in fund balance . . . . .	(403,025)	(295,949)	51,204	347,153
<b>Fund balance at beginning of year. . . . .</b>	1,331,309	1,331,309	1,331,309	-
<b>Prior year encumbrances appropriated . . . . .</b>	73,155	73,155	73,155	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,001,439</u>	<u>\$ 1,108,515</u>	<u>\$ 1,455,668</u>	<u>\$ 347,153</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2004

	<b>Business-Type Activities</b>
	<b>Enterprise Funds</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 1,069
Receivables:	
Intergovernmental . . . . .	8,407
Materials and supplies inventory . . . . .	5,055
Total current assets . . . . .	14,531
Noncurrent assets:	
Capital assets, net . . . . .	1,431
Total assets . . . . .	15,962
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	760
Accrued wages and benefits . . . . .	16,830
Pension obligation payable . . . . .	1,060
Intergovernmental payable . . . . .	1,116
Total current liabilities . . . . .	19,766
Long-term liabilities:	
Compensated absences . . . . .	37,301
Total liabilities . . . . .	57,067
<b>Net assets:</b>	
Invested in capital assets . . . . .	1,431
Unrestricted (deficit) . . . . .	(42,536)
Total net assets (deficit) . . . . .	\$ (41,105)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<b>Business-Type Activities</b>
	<b>Enterprise Funds</b>
<b>Operating revenues:</b>	
Tuition and fees. . . . .	\$ 20,558
Sales/charges for services. . . . .	184,107
Other . . . . .	278
	204,943
<b>Operating expenses:</b>	
Personal services. . . . .	155,523
Purchased services. . . . .	695
Materials and supplies . . . . .	4,379
Cost of Sales . . . . .	126,264
Depreciation . . . . .	400
Other. . . . .	760
	288,021
Total operating revenues . . . . .	204,943
Total operating expenses. . . . .	288,021
Operating loss . . . . .	(83,078)
<b>Nonoperating revenues:</b>	
Federal donated commodities . . . . .	1,892
Grants and subsidies. . . . .	69,882
	71,774
Total nonoperating revenues. . . . .	71,774
Loss before transfers . . . . .	(11,304)
Transfer in . . . . .	25,611
	14,307
Change in net assets . . . . .	14,307
<b>Net assets (deficit) at beginning of year . .</b>	<b>(55,412)</b>
<b>Net assets (deficit) at end of year. . . . .</b>	<b>\$ (41,105)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<b>Business-Type Activities</b>
	<b>Enterprise Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from tuition and fees . . . . .	\$ 20,587
Cash received from sales/charges for services. . . . .	184,107
Cash received from other operations. . . . .	278
Cash payments for personal services. . . . .	(166,556)
Cash payments for contractual services . . . . .	(695)
Cash payments for materials and supplies . . . . .	(126,264)
	(88,543)
Net cash used in operating activities . . . . .	(88,543)
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies . . . . .	61,475
Cash received from transfers in . . . . .	25,611
	87,086
Net cash provided by noncapital financing activities. . . . .	87,086
Net decrease in cash and cash equivalents . . . . .	(1,457)
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>2,526</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 1,069</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (83,078)
Adjustments:	
Depreciation. . . . .	400
Federal donated commodities . . . . .	1,892
Changes in assets and liabilities:	
Decrease in materials and supplies inventory . . . . .	2,487
Decrease in intergovernmental receivable . . . . .	29
Decrease in prepayments. . . . .	2,520
Increase in accounts payable. . . . .	760
Decrease in accrued wages and benefits . . . . .	(1,023)
Decrease in intergovernmental payable . . . . .	(14,436)
Increase in compensated absences payable . . . . .	846
Increase in pension obligation payable. . . . .	1,060
	1,060
Net cash used in operating activities . . . . .	\$ (88,543)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 31,441
Receivables:	
Accounts . . . . .	55
Total assets. . . . .	\$ 31,496
<b>Liabilities:</b>	
Due to students . . . . .	\$ 31,496
Total liabilities . . . . .	\$ 31,496

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

Mathews Local School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and federal guidelines. This Board of Education controls the District's four instructional/support facilities staffed by 52 classified employees, and 75 certified full-time who provide services to 1,042 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The 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.

*JOINTLY GOVERNED ORGANIZATIONS*

Trumbull County Career and Technical Center

The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio. The Center is operated under the direction of a Board, consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. During fiscal 2004, the District paid \$113,164 to the Trumbull County Career and Technical Center. To obtain financial information write to the Trumbull County Joint Vocational School, Gary Ghizzoni, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

**MATHEWS 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)**

North East Ohio Management Information Network (NEOMIN)

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

The Governing Board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The District was not represented on the Governing Board during fiscal year 2004. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. During fiscal 2004, the District paid \$14,880 to NEOMIN. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Instructional Media Center (NEOIMC)

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

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent, and two local superintendents whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal 2004, the District paid \$1,511 to NEOIMC. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

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

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

NEO/SERRC is governed by a governing board of 39 members, comprised of the 35 superintendents of the participating districts, one non-public school representative, one county board of mental retardation representative, and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The District is not required to remit payment in order to participate in NEO/SERRC. Financial information is available from the Mahoning County Educational Service Center (fiscal agent), 2801 Market Street, Youngstown, Ohio 44507.

Region 12 Professional Development Center (Center)

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



**MATHEWS 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 Center is governed by a governing board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University. The degree of control exercised by any participating school district is limited to its representation on the Board. The District is not required to remit payment in order to participate in the Center. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

*INSURANCE PURCHASING POOLS*

Ohio Association of School Business Officials 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 Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, 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.

Ohio School Plan

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

Trumbull County Schools Employee Insurance Consortium

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

**B. Fund Accounting**

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

**MATHEWS 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)**

*GOVERNMENTAL FUNDS*

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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.

Permanent Improvement Fund - A fund used to account for all transactions related to the acquiring, constructing, or improving of permanent improvements as authorized by Chapter 5705, Revised Code.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

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

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

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

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

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

**MATHEWS 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)**

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

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

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

**D. Basis of Accounting**

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

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

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

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

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.

**MATHEWS 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)**

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 operating statement as an expense with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

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

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

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

**F. Cash and Investments**

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

**MATHEWS 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)**

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

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2004 amounted to \$20,743 which includes \$2,367 assigned from other District funds.

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

**MATHEWS 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)**

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

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

**M. Net Assets**

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

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



**MATHEWS 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)**

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

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

**Q. Operating Revenues and Expenses**

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

**R. Interfund Activity**

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

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

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**S. Extraordinary and Special Items**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Restatement of Net Assets**

The beginning net assets of the governmental activities have been restated due to errors in the calculation of depreciation reported in capital assets at June 30, 2003. The adjustment for capital assets had the following effect on net assets as previously reported:

	Governmental Activities
Net assets, June 30, 2003	\$ 3,348,296
Adjustment for capital assets	(145,607)
Restated adjusted net assets, June 30, 2003	\$ 3,202,689

**B. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	
Education Management Information Systems	\$ 14
Disadvantaged Pupil Impact Aid	17
Ohio Reads	17
Summer Intervention	196
Title VI	12
Miscellaneous Federal Grants	2

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

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

State statute classifies 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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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

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

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

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 \$1,034,281 and the bank balance was \$1,128,740. Both of these amounts include \$1,000,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$201,939 was covered by federal depository insurance; and
2. \$926,801 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 placed 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.

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

	Carrying Amount	Fair Value
Investment in STAR Ohio	\$ 690,754	\$ 690,754
Total investments	\$ 690,754	\$ 690,754

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,725,035	\$ -
Investments of the cash management pool:		
Investments in STAR Ohio	<u>(690,754)</u>	<u>690,754</u>
GASB Statement No. 3	<u>\$ 1,034,281</u>	<u>\$ 690,754</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 2,000

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

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

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 162,047
Enterprise funds	25,611

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

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

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

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

**NOTE 6 - PROPERTY TAXES**

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

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

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

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

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 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.

The amount available as an advance at June 30, 2004 was \$23,614 in the general fund and \$822 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$34,714 in the general fund and \$1,074 in the Permanent Improvement capital projects fund.

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

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

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 120,417,490	88.86	\$ 122,892,240	89.84
Public Utility Personal	5,934,780	4.38	5,919,320	4.33
Tangible Personal Property	<u>9,164,253</u>	<u>6.76</u>	<u>7,974,510</u>	<u>5.83</u>
 Total	 <u>\$ 135,516,523</u>	 <u>100.00</u>	 <u>\$ 136,786,070</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 58.18		 \$ 58.18	

**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 and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities**

Taxes - current and delinquent	\$ 5,249,774
Accounts	1,993
Intergovernmental	13,895
Accrued interest	1,229

**Business-type Activities**

Intergovernmental	<u>8,407</u>
Total receivables	<u>\$ 5,275,298</u>

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

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

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

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to an adjustment in depreciation of the District's capital assets:

	<u>Balance</u>		<u>Restated Balance</u>
	<u>June 30, 2003</u>	<u>Adjustments</u>	<u>June 30, 2003</u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ 363,767	\$ -	\$ 363,767
Total capital assets, not being depreciated	<u>363,767</u>	<u>-</u>	<u>363,767</u>
Capital assets, being depreciated:			
Land improvements	448,513	-	448,513
Building/improvements	2,315,010	-	2,315,010
Furniture/equipment	1,331,851	-	1,331,851
Vehicles	609,022	-	609,022
Textbooks	<u>705,060</u>	<u>-</u>	<u>705,060</u>
Total capital assets, being depreciated	<u>5,409,456</u>	<u>-</u>	<u>5,409,456</u>
<i>Less: accumulated depreciation:</i>	<u>(2,383,326)</u>	<u>(145,607)</u>	<u>(2,528,933)</u>
Governmental activities capital assets, net	<u>\$ 3,389,897</u>	<u>\$ (145,607)</u>	<u>\$ 3,244,290</u>
<b>Business-Type Activities</b>			
Furniture/equipment	\$ 70,375	\$ -	\$ 70,375
Less: accumulated depreciation	<u>(68,544)</u>	<u>-</u>	<u>(68,544)</u>
Total	<u>\$ 1,831</u>	<u>\$ -</u>	<u>\$ 1,831</u>



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

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

**NOTE 8 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 363,767	\$ -	\$ -	\$ 363,767
Total capital assets, not being depreciated	<u>363,767</u>	<u>-</u>	<u>-</u>	<u>363,767</u>
Capital assets, being depreciated:				
Land improvements	448,513	218,869	-	667,382
Building/improvements	2,315,010	3,391	(18,547)	2,299,854
Furniture/equipment	1,331,851	51,719	(44,038)	1,339,532
Vehicles	609,022	56,183	-	665,205
Textbooks	705,060	33,624	-	738,684
Total capital assets, being depreciated	<u>5,409,456</u>	<u>363,786</u>	<u>(62,585)</u>	<u>5,710,657</u>
Less: accumulated depreciation				
Land improvements	(270,371)	(19,956)	-	(290,327)
Building/improvements	(631,460)	(23,235)	6,942	(647,753)
Furniture/equipment	(735,622)	(109,998)	25,093	(820,527)
Vehicles	(342,908)	(51,906)	-	(394,814)
Textbooks	(548,572)	(58,170)	-	(606,742)
Total accumulated depreciation	<u>(2,528,933)</u>	<u>(263,265)</u>	<u>32,035</u>	<u>(2,760,163)</u>
Governmental activities capital assets, net	<u>\$ 3,244,290</u>	<u>\$ 100,521</u>	<u>\$ (30,550)</u>	<u>\$ 3,314,261</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	\$ 70,375	\$ -	\$ -	\$ 70,375
Less: accumulated depreciation	<u>(68,544)</u>	<u>(400)</u>	<u>-</u>	<u>(68,944)</u>
Business-type activities capital assets, net	<u>\$ 1,831</u>	<u>\$ (400)</u>	<u>\$ -</u>	<u>\$ 1,431</u>

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 122,015
Special	5,811
Vocational	5,537
Support Services:	
Pupil	1,793
Instructional staff	37,041
Administration	5,525
Fiscal	1,793
Operations and maintenance	14,587
Pupil transportation	50,533
Central	12,885
Extracurricular	<u>5,745</u>
Total depreciation expense	<u>\$ 263,265</u>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of a bus garage. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of a bus garage building have been capitalized in the amount of \$281,000. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2004 fiscal year totaled \$53,000 and \$9,115, respectively. These amounts are reported as debt service payments in the permanent improvement fund.

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)**

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

Year Ending June 30	Amount
2005	\$ 62,645
2006	63,063
2007	63,369
Total minimum lease payment	189,077
Less: amount representing interest	(12,077)
Present value of minimum lease payments	\$ 177,000

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. The changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004	Amounts due in One Year
<b><u>Governmental-Type Activities</u></b>					
1993 EPA Asbestos Loan 0%	\$ 117,371	\$ -	\$ (12,961)	\$ 104,410	\$ 12,961
Capital leases	230,000	-	(53,000)	177,000	56,000
Compensated absences	1,098,561	118,756	(80,255)	1,137,062	77,968
Total governmental long-term activities	\$ 1,445,932	\$ 118,756	\$ (146,216)	\$ 1,418,472	\$ 146,929
<b><u>Business-Type Activities</u></b>					
Compensated absences	\$ 36,455	\$ 846	\$ -	\$ 37,301	\$ -

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

Capital leases will be paid from the permanent improvement fund and compensated absences will be paid by the fund from which the employee is paid.

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

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

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

Principal requirements to retire general obligation debt outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>
2005	\$ 12,961
2006	12,961
2007	12,961
2008	12,961
2009	12,961
2010 - 2013	<u>39,605</u>
Total	<u>\$ 104,410</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 \$12,310,746 and an unvoted debt margin of \$136,786.

**MATHEWS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. The District pays this annual premium to the OSP. Coverages provided with Indiana Insurance and through the Ohio School Plan are as follows:

<u>Coverage</u>	<u>Amount</u>
<b>Coverage provided by Indiana Insurance:</b>	
Building and contents-replacement cost (\$1,000 deductible)	\$16,629,293
Money and securities/in and out (\$500 deductible)	10,000
Automobile liability (\$250 deductible on comprehensive) (\$500 deductible on collision)	2,000,000
Auto medical payments	5,000
Uninsured/under insured motorists	250,000
<b>Coverage provided by Ace/Temple Re-Insurance:</b>	
General liability	
Per occurrence (no deductible)	2,000,000
Total per year	4,000,000
Employers liability (no deductible)	
Per occurrence	1,000,000
Educational legal liability	
Per occurrence (\$2,500 deductible)	2,000,000
Total per year	3,000,000

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

**B. Worker's Compensation**

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

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

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

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**C. Employee Medical Benefits**

For fiscal 2004, the District contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. Mathews Local School Districts pays a monthly contribution, which is a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$149,198, \$85,439, and \$52,269, respectively; 58% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$62,490, 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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**MATHEWS 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)**

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$531,742, \$464,536, and \$335,255, respectively; 92% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$41,934 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$0 made by the District and \$371 made by plan members.

**C. Social Security System**

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

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

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

**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.

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 \$37,982 during fiscal 2004.

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

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

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$64,944 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 (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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



**MATHEWS 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**

	<u>General Fund</u>
Budget basis	\$ 51,204
Net adjustment for revenue accruals	(20,792)
Net adjustment for expenditure accruals	40,769
Net adjustment for other sources/uses	(28,104)
Adjustment for encumbrances	<u>74,286</u>
GAAP basis	<u>\$ 117,363</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. State School Funding Decision**

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

**MATHEWS 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 law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2003	\$ (453,995)	\$ -
Current year set-aside requirement	133,929	133,929
Current year offsets	-	(169,777)
Current year qualifying disbursements	<u>(104,725)</u>	<u>(28,370)</u>
Total	<u>\$ (424,791)</u>	<u>\$ (64,218)</u>
Balance carried forward to FY 2005	<u>\$ (424,791)</u>	<u>\$ -</u>

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

**MATHEWS LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$ 27,276		\$28,542
National School Lunch Program	LLP4-2003	10.555	9,318		9,318	
	LLP4-2004	10.555	49,360		49,360	
Subtotal		10.555	58,678		58,678	
Total U.S. Department of Agriculture - Nutrition Cluster			58,678	27,276	58,678	28,542
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2003	84.010	1,068		1,760	
	C1S1-2003	84.010	64,140		64,124	
Subtotal		84.010	65,208		65,884	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BSF-2004	84.027	118,412		118,412	
Total Special Education Cluster		84.027	118,412		118,412	
Safe and Drug Free Schools - State Grants Title IV, Part A, Subpart 1 of ESEA						
	DRS1-2003	84.186	(29)			
	DRS1-2004	84.186	4,283		4,283	
Subtotal		84.186	4,254		4,283	
Innovative Program Strategies	C2S1-2004	84.298	5,203		5,203	
Tehcnology Literacy Challenge Fund Grants (TCLF) (Title II Part D)						
	TJS1-2003	84.318	(154)		150	
	TJS1-2004	84.318	1,303		1,153	
Subtotal		84.318	1,149		1,303	
Improving Teacher Quality	TRS1-2003	84.367	2,220		3,216	
	TRS1-2004	84.367	34,318		34,318	
Subtotal		84.367	36,538		37,534	
<i>Passed Through Ohio Department of Education/ Ohio School Facilities Commission</i>						
Federal Emergency Repair Grant	444	84.352A	138,303		193,000	
Total U.S. Department of Education			369,067		425,619	
<b>Totals</b>			<b>\$ 427,745</b>	<b>\$ 27,276</b>	<b>\$ 484,297</b>	<b>\$ 28,542</b>

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

**MATHEWS LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B--FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had \$3,496 in food commodities inventory.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mathews 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 April 20, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 20, 2005, we reported another matter related to noncompliance we deemed immaterial.

#### **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 for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated April 20, 2005, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

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

This report is intended for the information and use of management and the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 20, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education,

#### Compliance

We have audited the compliance of the Mathews Local School District, Trumbull County 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 each of its major federal programs for the year ended June 30, 2004. The Mathews Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Mathews Local School District's management. Our responsibility is to express an opinion on the Mathews Local School 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Mathews Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mathews Local School District's compliance with those requirements.

In our opinion, the Mathews Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the Mathews Local School District in a separate letter dated April 20, 2005.

#### Internal Control Over Compliance

The management of the Mathews Local School District 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 Mathews Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 20, 2005



**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505**

**MATHEWS LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY  
FISCAL YEAR ENDED JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Federal Emergency Repair Grant\CFDA - 84.352A Nutritional Cluster\CFDA - 10.550-10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

<b>Finding Number</b>	
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None

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	
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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

**MATTHEWS 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  
JUNE 28, 2005**