

**LOWELLVILLE LOCAL
SCHOOL DISTRICT**

MAHONING COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 AND 2004***

TONY MEDIATE, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Lowellville Local School District
52 Rocket Place
Lowellville, Ohio 44436

We have reviewed the *Independent Auditor's Report* of the Lowellville Local School District, Mahoning County, prepared by Julian and Grube, Inc., for the audit period July 1, 2003 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lowellville Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 8, 2006

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LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditors' Report

Board of Education
Lowellville Local School District
52 Rocket Place
Lowellville, Ohio 44436-1099

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lowellville Local School District (the "District"), Ohio, as of and for the fiscal years ended June 30, 2005 and 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 Lowellville Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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, its major fund, and the aggregate remaining fund information of the Lowellville Local School District, Ohio, as of June 30, 2005 and 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, for the fiscal year ended 2005, the District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers". As disclosed in the Note 3 to the financial statements, for the fiscal year ended 2004, the Lowellville Local School District implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, capital assets have been restated due to errors and omissions in prior years and an increase in capitalizations threshold, further, there has been a restatement in fund balances due to errors in prior years.

Independent Auditors' Report
Lowellville Local School District

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2006 on our consideration of the Lowellville Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
May 3, 2006

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED**

The management's discussion and analysis of the Lowellville Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal years ended June 30, 2005 and 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 2005 and 2004 are as follows:

- In fiscal year 2005, net assets of governmental activities decreased \$350,987 or 2.27%. In fiscal year 2004, net assets of governmental activities decreased \$332,497, or 2.11%.
- For fiscal year 2005, general revenues accounted for \$3,465,336 in revenue or 67.58% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,662,136 or 32.42% of total revenues of \$5,127,472. For fiscal year 2004, general revenues accounted for \$3,476,842 in revenue or 69.62% of all revenues. Program specific revenues accounted for \$1,517,221 or 30.38% of total revenues of \$4,994,063.
- For fiscal year 2005, the District had \$5,478,459 in expenses related to governmental activities; \$1,662,136 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$3,465,336 were not adequate to provide for these programs. For fiscal year 2004, the District had \$5,326,560 in expenses related to governmental activities; \$1,517,221 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities of \$3,476,842 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. For fiscal years 2005 and 2004, the general fund had \$4,222,799 and \$4,166,459 in revenues and other financing sources and \$4,197,795 and \$3,987,414 in expenditures and other financing uses. The general fund's fund balance increased \$25,004 from 2004 to 2005 and increased \$179,045 from 2003 to 2004.

Using these Basic Financial Statements

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

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 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 2005 and 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 for 2005 and 21-22 for 2004.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 for 2005 and 23-27 for 2004.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statements of Fiduciary Net Assets on pages 20 and 28 for 2005 and 2004. 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 29-60 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004. 2004 is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 3,681,114	\$ 3,448,887
Capital assets	<u>15,582,344</u>	<u>16,294,837</u>
Total assets	<u>19,263,458</u>	<u>19,743,724</u>
<u>Liabilities</u>		
Current liabilities	1,776,280	1,720,491
Long-term liabilities	<u>2,403,725</u>	<u>2,588,793</u>
Total liabilities	<u>4,180,005</u>	<u>4,309,284</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	13,357,907	13,886,896
Restricted	920,210	459,779
Unrestricted	<u>805,336</u>	<u>1,087,765</u>
Total net assets	<u>\$ 15,083,453</u>	<u>\$ 15,434,440</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005 and 2004, the District's assets exceeded liabilities by \$15,083,453 and \$15,434,440. Of these totals, \$920,210 and \$459,779 are restricted in use.

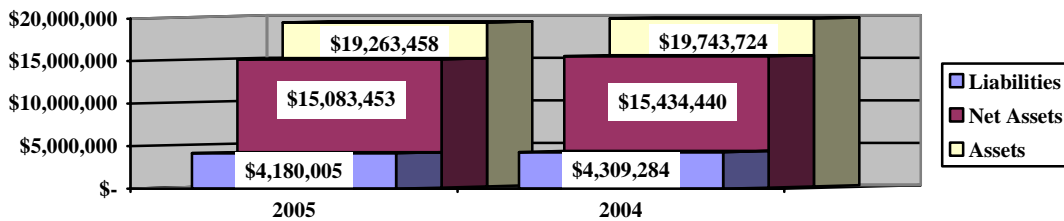
**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED**

At June 30, 2005 and 2004, capital assets represented 80.89% and 82.54% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005 and 2004, were \$13,357,907 and \$13,886,896. 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 at June 30, 2005 and 2004, \$920,210 and \$459,779, represents resources that are subject to external restriction on how they may be used. The remaining balances of unrestricted net assets of \$805,336 and \$1,087,765 may be used to meet the District's ongoing obligations to the students and creditors. The table below illustrates the District's assets, liabilities and net assets at June 30, 2005 and 2004.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004. 2004 is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,312,983	\$ 1,182,785
Operating grants and contributions	349,153	319,036
Capital grants and contributions	-	15,400
General revenues:		
Property taxes	1,252,860	1,147,312
Grants and entitlements	2,142,563	2,236,485
Investment earnings	35,042	19,741
Other	34,871	73,304
Total revenues	<u>5,127,472</u>	<u>4,994,063</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,408,554	\$ 2,354,357
Special	390,698	476,373
Vocational	4,399	-
Support services:		
Pupil	126,430	151,854
Instructional staff	290,974	179,524
Board of education	35,100	22,485
Administration	551,698	476,020
Fiscal	174,561	138,693
Operations and maintenance	493,523	504,116
Pupil transportation	144,489	108,834
Central	29,249	29,300
Operations of non-instructional services	499	31,246
Food service operations	341,970	372,595
Extracurricular activities	369,874	365,331
Interest and fiscal charges	<u>116,441</u>	<u>115,832</u>
Total expenses	<u>5,478,459</u>	<u>5,326,560</u>
Change in net assets	(350,987)	(332,497)
Net assets at beginning of year	<u>15,434,440</u>	<u>15,766,937</u>
Net assets at end of year	<u>\$ 15,083,453</u>	<u>\$ 15,434,440</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$350,987 and \$332,497 at June 30, 2005 and 2004. Total governmental expenses of \$5,478,459 and \$5,326,560 were offset by program revenues of \$1,662,136 and \$1,517,221 and general revenues of \$3,465,336 and \$3,476,842. Program revenues supported 30.34% and 28.48% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 66.22% and 67.76% of total governmental revenue during 2005 and 2004.

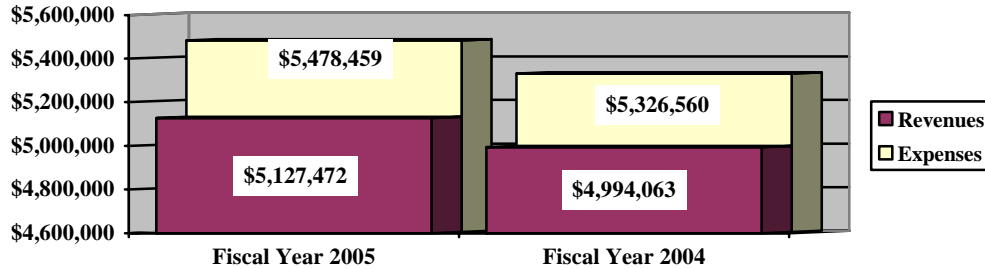
The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,803,651 or 51.18% of total governmental expenses for fiscal 2005 and \$2,830,730 or 53.14% for fiscal 2004.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. 2004 is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available.

Governmental Activities

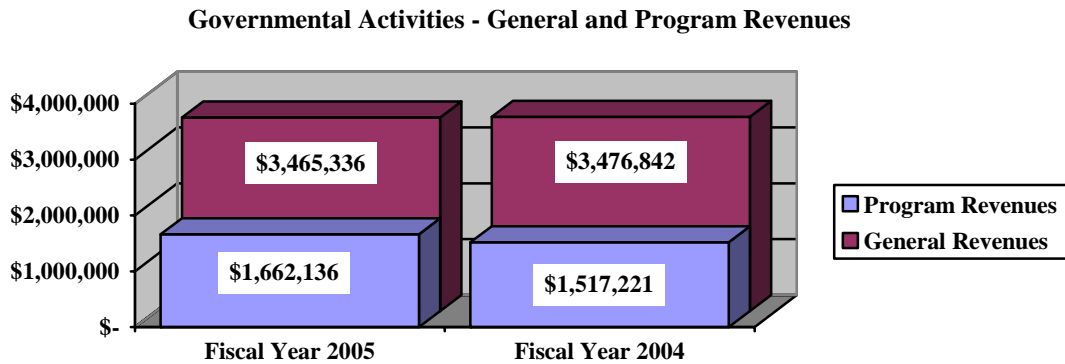
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 2,408,554	\$ 1,289,137	\$ 2,354,357	\$ 1,350,747
Special	390,698	203,522	476,373	316,260
Vocational	4,399	4,399	-	-
Support services:				
Pupil	126,430	121,141	151,854	149,944
Instructional staff	290,974	288,343	179,524	176,127
Board of education	35,100	35,100	22,485	22,485
Administration	551,698	523,989	476,020	447,950
Fiscal	174,561	170,760	138,693	136,963
Operations and maintenance	493,523	483,731	504,116	496,610
Pupil transportation	144,489	142,958	108,834	108,834
Central	29,249	27,368	29,300	2,478
Operations of non-instructional services	499	499	31,246	31,246
Extracurricular activities	369,874	285,668	365,331	302,249
Food service operations	341,970	123,267	372,595	151,614
Interest and fiscal charges	116,441	116,441	115,832	115,832
Total expenses	<u>\$ 5,478,459</u>	<u>\$ 3,816,323</u>	<u>\$ 5,326,560</u>	<u>\$ 3,809,339</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 53.40% and 58.89% of instruction activities are supported through taxes and other general revenues for fiscal years 2005 and 2004. For all governmental activities, general revenue support is 63.25% and 65.27%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,563,034, which is greater than last year's total of \$1,476,041. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 876,608	\$ 851,604	\$ 25,004	2.94 %
Other Governmental	<u>686,426</u>	<u>624,437</u>	<u>61,989</u>	9.93 %
Total	<u>\$ 1,563,034</u>	<u>\$ 1,476,041</u>	<u>\$ 86,993</u>	5.89 %

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

General Fund

The District's general fund balance increased \$25,004 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to increasing revenues and decreasing expenditures. Revenues exceed expenditures for fiscal year 2005 by \$348,786.

	2005	Restated 2004	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,004,509	\$ 920,284	\$ 84,225	9.15 %
Earnings on investments	30,693	14,646	16,047	109.57 %
Intergovernmental	2,126,908	2,221,126	(94,218)	(4.24) %
Other revenues	<u>1,060,689</u>	<u>1,010,403</u>	<u>50,286</u>	4.98 %
Total	<u>\$ 4,222,799</u>	<u>\$ 4,166,459</u>	<u>\$ 56,340</u>	1.35 %
<u>Expenditures</u>				
Instruction	\$ 2,136,638	\$ 2,120,686	\$ 15,952	0.75 %
Support services	1,547,775	1,484,991	62,784	4.23 %
Non-instructional services	499	31,246	(30,747)	(98.40) %
Extracurricular activities	145,292	171,589	(26,297)	(15.33) %
Debt service	<u>43,809</u>	<u>5,964</u>	<u>37,845</u>	634.56 %
Total	<u>\$ 3,874,013</u>	<u>\$ 3,814,476</u>	<u>\$ 59,537</u>	1.56 %

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.

For 2005, the general fund, original and final budgeted revenues and other financing sources were \$4,171,000. Actual revenues and other financing sources for fiscal 2005 were \$4,465,657. This represents a \$294,657 increase over final budgeted revenues. The increase is primarily due to an increase in state revenue.

For fiscal year 2005, general fund original and final appropriations (appropriated expenditures including other financing uses) were \$5,351,456. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$4,502,711, which was \$848,745 less than the final budget appropriations.

For 2004, the general fund, original and final budgeted revenues and other financing sources were \$3,844,776. Actual revenues and other financing sources for fiscal 2004 was \$4,251,621. This represents a \$406,845 increase over final budgeted revenues. The increase is primarily due to an increase in state revenue.

For fiscal year 2004, general fund original and final appropriations (appropriated expenditures including other financing uses) were \$774,863. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$4,145,637, which was less than the final budget appropriations.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$15,582,344 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004. 2004 is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available.

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

	Governmental Activities	
	2005	2004
Land	\$ 590,631	\$ 590,631
Land improvements	825,269	896,372
Building and improvements	12,751,732	13,124,494
Furniture and equipment	1,348,949	1,595,473
Vehicles	65,763	87,867
Total	\$ 15,582,344	\$ 16,294,837

The overall decrease in capital assets of \$712,493 is due to depreciation expense of \$737,829 exceeding capital outlays of \$25,336 in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$1,965,000 in general obligation bonds outstanding. Of this total, \$45,000 is due within one year and \$1,920,000 is due within greater than one year. The following table summarizes the bonds outstanding. 2004 is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 1,965,000	\$ 2,005,000
Total	\$ 1,965,000	\$ 2,005,000

At June 30, 2005 and 2004, the District's overall legal debt margin was \$1,135,715 and \$1,053,918, and an unvoted debt margin of \$33,570 and \$33,423.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED**

Current Related Financial Activities

Lowellville Local School is and has been financially strong for a long period of time, extending back to 1985 when the last operating levy was approved by the voters. Since that time, only the 5.1 mill bond issue for the new K-12 School has been on the ballot and that was approved by 70 % of the voters. Contributing to the financial soundness of the school district is open enrollment, which has been in effect since 1994. The open enrollment program has been well managed from an educational and a financial viewpoint. We have received an Excellent Rating for the last three years and have maintained our ranking as the lowest cost per pupil school district in the area.

Although property taxes have remained flat for an extended period of time, the combination of State Funding (75 % of revenue), open enrollment, and cost containment have allowed us to remain financially sound. Unrestricted State funding decreased in the last fiscal year compared to the previous fiscal year. As a result, unrestricted State funding shows an increase of 7.7 % per year from Fiscal 2000 to Fiscal 2005 which is a significant decrease compared to the increase in State funding from Fiscal 1999 to Fiscal 2004. Continued increases in open enrollment funding and continued cost containment policies have allowed the school district to remain financially sound.

The most significant challenge in the years ahead will be the level of State funding. Current indications are that future increases will not approximate past increases particularly relative to Parity Aid. Also significant are the increased number of school districts adopting open enrollment policies which could result in a loss of open enrollment students for Lowellville. Reducing expenditures in direct proportion to a potential decrease in open enrollment students will not be possible; therefore, higher costs per pupil will be the result. Continuation of this scenario for two or three fiscal years will result in a need for additional revenue.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Tony Mediate, Treasurer, Lowellville Local School District, 52 Rocket Place, Lowellville, Ohio 44436.

**BASIC
FINANCIAL STATEMENTS**

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,076,356
Receivables:	
Taxes	1,586,905
Intergovernmental	14,086
Materials and supplies inventory	3,767
Capital assets:	
Land	590,631
Depreciable capital assets, net	14,991,713
Capital assets, net.	15,582,344
 Total assets.	 19,263,458
Liabilities:	
Accounts payable.	1,926
Accrued wages and benefits	417,237
Pension obligation payable.	84,694
Intergovernmental payable	27,318
Deferred revenue	1,236,152
Accrued interest payable	8,953
Long-term liabilities:	
Due within one year.	202,724
Due in more than one year	2,201,001
Total liabilities	4,180,005
Net Assets:	
Invested in capital assets, net of related debt.	13,357,907
Restricted for:	
Capital projects	239,557
Classroom facilities maintenance.	224,969
Locally funded programs	27,289
State funded programs	7,502
Student activities	16,719
Debt service.	92,306
Other purposes	311,868
Unrestricted	805,336
Total net assets	\$ 15,083,453

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,408,554	\$ 1,076,546	\$ 42,871	\$ (1,289,137)
Special	390,698	-	187,176	(203,522)
Vocational	4,399	-	-	(4,399)
Support services:				
Pupil.	126,430	-	5,289	(121,141)
Instructional staff	290,974	-	2,631	(288,343)
Board of education	35,100	-	-	(35,100)
Administration.	551,698	22,709	5,000	(523,989)
Fiscal.	174,561	-	3,801	(170,760)
Operations and maintenance	493,523	2,257	7,535	(483,731)
Pupil transportation.	144,489	-	1,531	(142,958)
Central	29,249	-	1,881	(27,368)
Operation of non-instructional services:				
Food service operations	341,970	133,439	85,264	(123,267)
Other non-instructional services	499	-	-	(499)
Extracurricular activities.	369,874	78,032	6,174	(285,668)
Interest and fiscal charges	116,441	-	-	(116,441)
Total governmental activities	<u>\$ 5,478,459</u>	<u>\$ 1,312,983</u>	<u>\$ 349,153</u>	<u>(3,816,323)</u>

General Revenues:

Property taxes levied for:	
General purposes	1,083,552
Special revenue	15,117
Debt service.	154,191
Grants and entitlements not restricted to specific programs.	
	2,142,563
Investment earnings	35,042
Miscellaneous	34,871
Total general revenues.	<u>3,465,336</u>
Change in net assets	(350,987)
Net assets at beginning of year.	<u>15,434,440</u>
Net assets at end of year	<u>\$ 15,083,453</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,152,970	\$ 723,182	\$ 1,876,152
Receivables:			
Taxes	1,368,774	218,131	1,586,905
Intergovernmental	-	14,086	14,086
Due from other funds	1,006	-	1,006
Materials and supplies inventory	-	3,767	3,767
Restricted assets:			
Equity in pooled cash and cash equivalents	200,204	-	200,204
Total assets	<u>\$ 2,722,954</u>	<u>\$ 959,166</u>	<u>\$ 3,682,120</u>
Liabilities:			
Accounts payable	\$ 60	\$ 1,866	\$ 1,926
Accrued wages and benefits	377,310	39,927	417,237
Pension obligation payable.	75,866	8,828	84,694
Intergovernmental payable.	24,336	2,982	27,318
Due to other funds	-	1,006	1,006
Deferred revenue.	1,368,774	218,131	1,586,905
Total liabilities	<u>1,846,346</u>	<u>272,740</u>	<u>2,119,086</u>
Fund Balances:			
Reserved for encumbrances	32,997	49,503	82,500
Reserved for materials and supplies inventory.	-	3,767	3,767
Reserved for school bus purchases.	83,355	-	83,355
Reserved for BWC refunds.	22,184	-	22,184
Reserved for textbooks.	94,665	-	94,665
Reserved for debt service.	-	59,371	59,371
Unreserved, undesignated, reported in:			
General fund	643,407	-	643,407
Special revenue funds.	-	348,758	348,758
Capital projects funds.	-	225,027	225,027
Total fund balances.	<u>876,608</u>	<u>686,426</u>	<u>1,563,034</u>
Total liabilities and fund balances	<u>\$ 2,722,954</u>	<u>\$ 959,166</u>	<u>\$ 3,682,120</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,563,034
<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.		15,582,344
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		350,753
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(8,953)
Long-term liabilities, including bonds, notes and lease-purchase agreements payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ (179,288)	
Capital lease obligation	(259,437)	
General obligation bonds payable	<u>(1,965,000)</u>	
Total		<u>(2,403,725)</u>
Net assets of governmental activities		<u><u>\$ 15,083,453</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 1,004,509	\$ 159,070	\$ 1,163,579
Tuition.	1,035,076	-	1,035,076
Charges for services.	-	133,439	133,439
Earnings on investments.	30,693	4,349	35,042
Extracurricular.	-	100,741	100,741
Classroom materials and fees.	-	761	761
Other local revenues.	25,613	58,398	84,011
Intergovernmental - State.	2,126,908	85,582	2,212,490
Intergovernmental - Federal	-	273,052	273,052
Total revenue	<u>4,222,799</u>	<u>815,392</u>	<u>5,038,191</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,994,557	34,879	2,029,436
Special.	137,682	194,860	332,542
Vocational.	4,399	-	4,399
Support services:			
Pupil.	106,768	5,493	112,261
Instructional staff	250,691	2,660	253,351
Board of education	33,319	-	33,319
Administration.	426,651	81,487	508,138
Fiscal	147,039	6,457	153,496
Operations and maintenance.	444,289	21,508	465,797
Pupil transportation	112,473	3,500	115,973
Central.	26,545	2,346	28,891
Operation of non-instructional services:			
Food service operations	-	179,258	179,258
Other non-instructional services.	499	-	499
Extracurricular activities.	145,292	92,352	237,644
Facilities acquisition and construction	-	196,085	196,085
Debt service:			
Principal retirement	39,419	144,085	183,504
Interest and fiscal charges	4,390	112,215	116,605
Total expenditures	<u>3,874,013</u>	<u>1,077,185</u>	<u>4,951,198</u>
Excess of revenues over (under) expenditures	<u>348,786</u>	<u>(261,793)</u>	<u>86,993</u>
Other financing sources (uses):			
Transfers in	-	323,782	323,782
Transfers (out).	(323,782)	-	(323,782)
Total other financing sources (uses)	<u>(323,782)</u>	<u>323,782</u>	<u>-</u>
Net change in fund balances	25,004	61,989	86,993
Fund balances at beginning of year (restated)			
	<u>851,604</u>	<u>624,437</u>	<u>1,476,041</u>
Fund balances at end of year	<u>\$ 876,608</u>	<u>\$ 686,426</u>	<u>\$ 1,563,034</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	86,993
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlays	\$ 25,336	
Depreciation expense	<u>(737,829)</u>	
Total		(712,493)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		89,281
 Repayment of bond and capital lease agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		183,504
 Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		
		164
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>1,564</u>
Change in net assets of governmental activities	\$	<u><u>(350,987)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 929,891	\$ 929,891	\$ 1,004,509	\$ 74,618
Tuition.	958,187	958,187	1,035,076	76,889
Earnings on investments.	28,413	28,413	30,693	2,280
Other local revenues	23,710	23,710	25,613	1,903
Intergovernmental - State	<u>1,968,914</u>	<u>1,968,914</u>	<u>2,126,908</u>	<u>157,994</u>
Total revenue	<u>3,909,115</u>	<u>3,909,115</u>	<u>4,222,799</u>	<u>313,684</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,386,299	2,386,299	2,007,831	378,468
Special.	161,614	161,614	135,982	25,632
Vocational.	5,229	5,229	4,399	830
Support services:				
Pupil.	134,094	134,094	112,826	21,268
Instructional staff	302,443	302,443	254,475	47,968
Board of education	39,229	39,229	33,007	6,222
Administration.	510,534	510,534	429,563	80,971
Fiscal	177,239	177,239	149,129	28,110
Operations and maintenance.	570,108	570,108	479,688	90,420
Pupil transportation	140,186	140,186	117,953	22,233
Central.	76,527	76,527	64,390	12,137
Operation of non-instructional services	593	593	499	94
Extracurricular activities.	<u>173,911</u>	<u>173,911</u>	<u>146,329</u>	<u>27,582</u>
Total expenditures	<u>4,678,006</u>	<u>4,678,006</u>	<u>3,936,071</u>	<u>741,935</u>
Excess of revenues over (under) expenditures.	<u>(768,891)</u>	<u>(768,891)</u>	<u>286,728</u>	<u>1,055,619</u>
Other financing sources (uses):				
Transfers in.	261,885	261,885	242,858	(19,027)
Transfers (out)	<u>(673,450)</u>	<u>(673,450)</u>	<u>(566,640)</u>	<u>106,810</u>
Total other financing sources (uses)	<u>(411,565)</u>	<u>(411,565)</u>	<u>(323,782)</u>	<u>87,783</u>
Net change in fund balance	(1,180,456)	(1,180,456)	(37,054)	1,143,402
Fund balance at beginning of year.	1,293,221	1,293,221	1,293,221	-
Prior year encumbrances appropriated	64,956	64,956	64,956	-
Fund balance at end of year	<u>\$ 177,721</u>	<u>\$ 177,721</u>	<u>\$ 1,321,123</u>	<u>\$ 1,143,402</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 45,290
Total assets.	<u>\$ 45,290</u>
Liabilities:	
Due to students	\$ 45,290
Total liabilities	<u>\$ 45,290</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,064,524
Receivables:	
Taxes	1,358,962
Intergovernmental	22,206
Materials and supplies inventory	3,195
Capital assets:	
Land	590,631
Depreciable capital assets, net	15,704,206
Capital assets, net.	<u>16,294,837</u>
 Total assets.	 <u>19,743,724</u>
Liabilities:	
Accounts payable.	50,755
Contracts payable.	60,811
Accrued wages and benefits	397,675
Pension obligation payable.	90,589
Intergovernmental payable	14,054
Deferred revenue	1,097,490
Accrued interest payable	9,117
Long-term liabilities:	
Due within one year.	198,605
Due in more than one year	2,390,188
Total liabilities	<u>4,309,284</u>
Net Assets:	
Invested in capital assets, net of related debt.	13,886,896
Restricted for:	
Capital projects	237,577
Debt service.	74,382
Other purposes	147,820
Unrestricted (deficit)	<u>1,087,765</u>
Total net assets	<u><u>\$ 15,434,440</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 2,354,357	\$ 957,333	\$ 46,277	\$ -	\$ (1,350,747)
Special	476,373	-	160,113	-	(316,260)
Support services:					
Pupil.	151,854	-	1,910	-	(149,944)
Instructional staff.	179,524	-	3,397	-	(176,127)
Board of education	22,485	-	-	-	(22,485)
Administration.	476,020	23,070	5,000	-	(447,950)
Fiscal.	138,693	-	1,730	-	(136,963)
Operations and maintenance	504,116	-	7,506	-	(496,610)
Pupil transportation.	108,834	-	-	-	(108,834)
Central	29,300	-	11,422	15,400	(2,478)
Operation of non-instructional services:					
Food service operations	372,595	139,300	81,681	-	(151,614)
Other non-instructional services	31,246	-	-	-	(31,246)
Extracurricular activities.	365,331	63,082	-	-	(302,249)
Interest and fiscal charges	115,832	-	-	-	(115,832)
Total governmental activities	\$ 5,326,560	\$ 1,182,785	\$ 319,036	\$ 15,400	(3,809,339)

General Revenues:

Property taxes levied for:	
General purposes	989,867
Special revenue	14,058
Debt service.	143,387
Grants and entitlements not restricted	
to specific programs.	2,236,485
Investment earnings	19,741
Miscellaneous	73,304
Total general revenues.	3,476,842
Change in net assets	(332,497)
Net assets at beginning of year	15,766,937
Net assets at end of year	\$ 15,434,440

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,230,854	\$ 718,635	\$ 1,949,489
Receivables:			
Taxes	1,171,710	187,252	1,358,962
Intergovernmental	-	22,206	22,206
Due from other funds	12,288	-	12,288
Materials and supplies inventory	-	3,195	3,195
Restricted assets:			
Equity in pooled cash and cash equivalents	115,035	-	115,035
Total assets	<u>\$ 2,529,887</u>	<u>\$ 931,288</u>	<u>\$ 3,461,175</u>
Liabilities:			
Accounts payable	\$ 44,520	\$ 6,235	\$ 50,755
Contracts payable	-	60,811	60,811
Accrued wages and benefits	364,892	32,783	397,675
Pension obligation payable	61,096	-	61,096
Intergovernmental payable	9,003	5,051	14,054
Due to other funds	-	12,288	12,288
Deferred revenue	1,171,710	187,252	1,358,962
Total liabilities	<u>1,651,221</u>	<u>304,420</u>	<u>1,955,641</u>
Fund Balances:			
Reserved for encumbrances	21,049	15,434	36,483
Reserved for materials and supplies inventory	-	3,195	3,195
Reserved for school bus purchases	35,262	-	35,262
Reserved for BWC refunds	22,184	-	22,184
Reserved for textbooks	57,589	-	57,589
Reserved for debt service	-	50,935	50,935
Unreserved, undesignated (deficit), reported in:			
General fund	742,582	-	742,582
Special revenue funds	-	335,161	335,161
Capital projects funds	-	222,143	222,143
Total fund balances (deficit)	<u>878,666</u>	<u>626,868</u>	<u>1,505,534</u>
Total liabilities and fund balances	<u>\$ 2,529,887</u>	<u>\$ 931,288</u>	<u>\$ 3,461,175</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,505,534
<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.		16,294,837
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		261,472
Long-term liabilities, including bonds, notes and lease-purchase agreements payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ (180,852)	
Pension obligation payable	(29,493)	
Capital lease obligation	(402,941)	
General obligation bonds payable	(2,005,000)	
Accrued interest payable	<u>(9,117)</u>	
Total		<u>(2,627,403)</u>
Net assets of governmental activities		<u><u>\$ 15,434,440</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 920,284	\$ 145,859	\$ 1,066,143
Tuition.	956,121	-	956,121
Charges for services.	-	139,300	139,300
Earnings on investments.	14,646	5,095	19,741
Extracurricular.	-	86,152	86,152
Classroom materials and fees.	-	1,212	1,212
Other local revenues.	54,282	19,022	73,304
Intergovernmental - state.	2,221,126	110,559	2,331,685
Intergovernmental - federal	-	239,236	239,236
Total revenue	<u>4,166,459</u>	<u>746,435</u>	<u>4,912,894</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,888,965	66,240	1,955,205
Special.	228,594	208,084	436,678
Support services:			
Pupil.	132,973	10,518	143,491
Instructional staff	136,297	3,382	139,679
Board of education	22,457	-	22,457
Administration.	392,298	32,490	424,788
Fiscal	130,717	4,770	135,487
Operations and maintenance.	497,121	6,228	503,349
Pupil transportation	142,384	14,239	156,623
Central.	10,409	18,891	29,300
Operation of non-instructional services:			
Food service operations	-	223,142	223,142
Other non-instructional services.	31,246	-	31,246
Extracurricular activities.	167,989	79,737	247,726
Facilities acquisition and construction	-	456,805	456,805
Debt service:			
Principal retirement	4,895	80,780	85,675
Interest and fiscal charges	1,069	114,915	115,984
Total expenditures	<u>3,787,414</u>	<u>1,320,221</u>	<u>5,107,635</u>
Excess of revenues under expenditures	<u>379,045</u>	<u>(573,786)</u>	<u>(194,741)</u>
Other financing sources (uses):			
Transfers in	-	200,000	200,000
Transfers (out).	(200,000)	-	(200,000)
Capital lease transaction.	-	305,517	305,517
Total other financing sources (uses)	<u>(200,000)</u>	<u>505,517</u>	<u>305,517</u>
Net change in fund balances	179,045	(68,269)	110,776
Fund balances at beginning of year (restated)			
	<u>699,621</u>	<u>695,137</u>	<u>1,394,758</u>
Fund balances (deficit) at end of year	<u>\$ 878,666</u>	<u>\$ 626,868</u>	<u>\$ 1,505,534</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	110,776
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$714,544) exceeds capital outlays (\$378,948) in the current period.		(335,596)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		81,169
Repayment of bond, note and capital lease agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		85,675
Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(305,517)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		152
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		30,844
		30,844
Change in net assets of governmental activities	\$	(332,497)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 832,221	\$ 832,221	\$ 920,285	\$ 88,064
Tuition.	864,627	864,627	956,120	91,493
Earnings on investments.	14,155	14,155	15,653	1,498
Other local revenues	24,434	24,434	27,020	2,586
Intergovernmental - State	<u>2,008,584</u>	<u>2,008,584</u>	<u>2,221,126</u>	<u>212,542</u>
Total revenue	<u>3,744,021</u>	<u>3,744,021</u>	<u>4,140,204</u>	<u>396,183</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,367,281	2,367,281	1,937,518	429,763
Special.	269,826	269,826	211,298	58,528
Vocational.	4,978	4,978	-	4,978
Other.	14,935	14,935	-	14,935
Support services:				
Pupil.	130,930	130,930	125,119	5,811
Instructional staff	169,263	169,263	127,088	42,175
Board of education	30,866	30,866	22,496	8,370
Administration.	465,972	465,972	392,922	73,050
Fiscal	221,038	221,038	132,522	88,516
Operations and maintenance.	680,041	680,041	523,608	156,433
Pupil transportation	240,284	240,284	148,669	91,615
Central.	131,429	131,429	10,409	121,020
Operation of non-instructional services	-	-	31,246	(31,246)
Extracurricular activities.	<u>193,657</u>	<u>193,657</u>	<u>204,826</u>	<u>(11,169)</u>
Total expenditures	<u>4,920,500</u>	<u>4,920,500</u>	<u>3,867,721</u>	<u>1,052,779</u>
Excess of revenues over (under) expenditures.	<u>(1,176,479)</u>	<u>(1,176,479)</u>	<u>272,483</u>	<u>1,448,962</u>
Other financing sources (uses):				
Transfers in.	95,329	95,329	105,417	10,088
Transfers (out)	-	-	(277,916)	(277,916)
Sale of capital assets.	<u>5,426</u>	<u>5,426</u>	<u>6,000</u>	<u>574</u>
Total other financing sources (uses)	<u>100,755</u>	<u>100,755</u>	<u>(166,499)</u>	<u>(267,254)</u>
Net change in fund balance	(1,075,724)	(1,075,724)	105,984	1,181,708
Fund balance at beginning of year (restated)	1,076,625	1,076,625	1,076,625	-
Prior year encumbrances appropriated	<u>110,612</u>	<u>110,612</u>	<u>110,612</u>	<u>-</u>
Fund balance at end of year	<u>\$ 111,513</u>	<u>\$ 111,513</u>	<u>\$ 1,293,221</u>	<u>\$ 1,181,708</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 36,197
Total assets.	<u>\$ 36,197</u>
Liabilities:	
Due to students	\$ 36,197
Total liabilities	<u>\$ 36,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lowellville Local School District (the "District") was established in 1920 through the consolidation of existing land areas and school districts. 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 and/or federal agencies.

The District serves an area of approximately 14 square miles. It is located in Mahoning County, and includes the Village of Lowellville. The District is the 579th largest in the State of Ohio (among the 613 public school districts in the state) in terms of enrollment. It is staffed by 14 non-certificated employees and 43 certificated full-time teaching personnel who provide services to 656 students and other community members. The District currently operates 2 instructional buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS, a Council of Governments (the "COG"), is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports the COG based upon a per pupil charge. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding. Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Mahoning County Career & Technical Center

The Mahoning County Career & Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Treasurer of the Career & Technical Center, at 7300 North Palmyra Road, Canfield, Ohio 44406.

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Mahoning County School Employees Insurance Consortium

The Mahoning County School Employees Insurance Consortium is a shared risk pool comprised of 14 Mahoning County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one-year terms to serve as the Board of Directors. The assembly exercises controls over the operations of the Consortium. All Consortium revenues are generated from charges for services and remitted to the fiscal agent Austintown Local School District. The fiscal agent will then remit the charges for services to Professional Risk Management (PRM), who acts in the capacity of a third-party administrator (TPA) for claims processing.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; 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. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. 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.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

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

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

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

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

The agency fund does not report a measurement focus as it does 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. 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).

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005 and June 30, 2004, but which were levied to finance fiscal year 2006 and 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal years 2005 and 2004 is as follows:

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate, which are one in the same, due to no amendments issued for fiscal years 2005 and 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function and object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications, which are one in the same, due to no amendments during the fiscal years ended June 30, 2005 and 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the object level.

F. Cash and Investments

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

During fiscal years 2005 and 2004, the District had no investments.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal years 2005 and 2004 amounted to \$30,693 and \$14,646, respectively, which includes \$8,515 and \$4,245, respectively, assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$1,000. The District maintained a capitalization threshold of \$1,000 for fiscal year 2005. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005 and June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with 20 years of current service with the District, all employees age 45 with at least 15 years of service, and all employees age 50 with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005 and June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not recorded.

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.

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. 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.

O. Restricted Assets

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

P. Interfund Activity

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

Q. 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 years 2005 and 2004.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Prior Period Adjustments

For fiscal year 2005, the District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

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

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 878,666	\$ 626,868	\$ 1,505,534
GASB Technical Bulletin No. 2004-2	(27,062)	(2,431)	(29,493)
Restated Fund Balance, June 30, 2004	<u>\$ 851,604</u>	<u>\$ 624,437</u>	<u>\$ 1,476,041</u>

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39, 40 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity".

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003 and the effect of a prior period adjustment.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 688,349	\$ 684,385	\$ 1,372,734
Prior period adjustment	1,243	(1,243)	-
Fund reclassifications	-	11,995	11,995
Implementation of GASB Interpretation No. 6	10,029	-	10,029
Restated fund balance, June 30, 2003	\$ 699,621	\$ 695,137	\$ 1,394,758

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 1,394,758
GASB 34 adjustments:	
Long-term (deferred) assets	180,303
Capital assets	16,630,433
Accrued interest payable	(9,269)
Pension obligation	(33,195)
Long-term liabilities	(2,396,093)
Governmental activities net assets, June 30, 2003	\$ 15,766,937

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Management Information Systems	\$ 2,517
Disadvantaged Pupil Impact Aid	9,435
Title VI-B	10,514
Title I	55,757
Title VI	38
Improving Teaching Quality	4,202

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

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Management Information Systems	\$ 13
Entry Year Program	2
Disadvantage Pupil Act	5,534
Ohio Reads	4,981
Title VI-B	12,460
Title I	11,023
Title VI	9
Reducing Class Size	3,873

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Compliance

- i. Contrary to Ohio Revised Code Section 5705.10, the District had the following negative cash balance in the following funds at June 30, 2005 and 2004:

2005	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Ohio Reads	\$ 1,006
2004	
<u>Nonmajor Funds</u>	
Food Service	3,402
Title I	8,720
Reducing Class Size	166

- ii. Contrary to Ohio Revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the years ended June 30, 2005 and 2004:

2005	<u>Excess</u>
<u>Nonmajor Funds</u>	
Ohio Reads	\$ 1,186
Title I	8,720
Title II-A	165
Food Service	975
2004	
<u>Nonmajor Funds</u>	
Disadvantaged Pupil Impact Aid	36,000
Title II-D	523
Permanent Improvement	227,900

- iii. Contrary to Ohio Revised Code Section 5705.41(B), the following funds had expenditures in excess of appropriations for the years ended June 30, 2005 and 2004:

2005	<u>Excess</u>
<u>Nonmajor Funds</u>	
District Managed Student Activity	\$ 11,596
EMIS	13,782
Entry Year Teacher	1,100
Onenet	6,000
Professional Development Grant	739
Ohio Reads	11,184
Title I	6,689
Title II-D	524
Permanent Improvement	125,170
Schoolnet Plus	4,489
Vision Benefits	2,479

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

2004 <u>Nonmajor Funds</u>	<u>Excess</u>
District Managed Student Activity	\$ 10,980
EMIS	5,000
Entry Year Teacher	1,100
ONENET Professional Development Grant	6,000
Disadvantaged Pupil Impact	36,000
Title II-D	523
Permanent Improvement	227,900
Ohio Reads	7,116
Summer School Subsidiary	11,899
Title II	8,009
IDEA Part B	21,672
Title I	12,245
Title V	3,397
Title IV	5,346
Title II-A	2,260
Title II-D	1,588
Food Service	15,285
Schoolnet	10,911
Tech Equity	809

Disclosure is presented at the fund level due to the practicality of disclosing at the legal level of control.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The District did not have investments at June 30, 2005 and 2004.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

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

A. Deposits with Financial Institutions

At June 30, 2005 and 2004, the carrying amount of all District deposits was \$2,121,646 and \$2,100,721 respectively. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005 and 2004, \$1,860,280 and \$2,031,095, respectively, of the District's bank balance of \$2,160,280 and \$2,131,095, respectively, was exposed to custodial risk as discussed below, while \$300,000 and \$100,000, respectively, was covered by Federal Deposit Insurance Corporation.

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

B. Reconciliation of Cash to the Statement of Net Assets

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,121,646
Total	<u>\$ 2,121,646</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,076,356
Agency fund	<u>45,290</u>
Total	<u>\$ 2,121,646</u>

The following is a reconciliation of cash as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2004:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,100,721
Total	<u>\$ 2,100,721</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,064,524
Agency fund	<u>36,197</u>
Total	<u>\$ 2,100,721</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances for the year ended June 30, 2005, consisted of the following due to/from other funds, as reported on the fund financial statements:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 1,006	\$ -
Nonmajor Governmental Funds:		
Ohio Reads	-	1,006
Total	\$ 1,006	\$ 1,006

Interfund balances for the year ended June 30, 2004, consisted of the following due to/from other funds, as reported on the fund financial statements:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 11,988	\$ -
Nonmajor Governmental Funds:		
Food Service Operations		3,402
Title I		8,420
Reducing Class Size	-	166
Total	\$ 11,988	\$ 11,988

The primary purpose of due to/from other funds is to cover a negative cash balance in a respective fund. The general fund is liable for covering a cash deficit. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets. All amounts are to be repaid within one year.

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 323,782

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 200,000

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) 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 for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 and 2004 represents collections of calendar year 2004 and 2003 taxes. Real property taxes received in calendar year 2005 and 2004 were levied after April 1, 2004 and 2003, on the assessed value listed as of January 1, 2004 and 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 2005 and 2004 represents collections of calendar year 2004 and 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 and 2004 became a lien December 31, 2003 and 2002, were levied after April 1, 2004 and 2003 and are collected in 2005 and 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 2005 and 2004 (other than public utility property) represents the collection of 2005 and 2004 taxes. Tangible personal property taxes received in calendar year 2005 and 2004 were levied after April 1, 2004 and 2003, on the value as of December 31, 2003 and 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Mahoning County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 and 2004, are available to finance fiscal year 2005 and 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

There were no property tax advances available to the District at June 30, 2005 and 2004.

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

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate	\$ 19,747,120	59.08	\$ 20,136,570	59.99
Commercial/industrial real estate	5,965,470	17.85	5,891,360	17.55
Public utility personal	6,329,780	18.94	6,216,160	18.52
Tangible personal property	<u>1,381,016</u>	<u>4.13</u>	<u>1,326,394</u>	<u>3.94</u>
Total	<u>\$ 33,423,386</u>	<u>100.00</u>	<u>\$ 33,570,484</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$ 56.40	\$ 56.40
Debt retirement	5.10	5.10

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 public utility/minerals real estate	\$ 19,378,050	64.99	\$ 19,747,120	59.08
Commercial/industrial real estate	2,290,390	7.68	5,965,470	17.85
Public utility personal	5,800,320	19.45	6,329,780	18.94
Tangible personal property	<u>2,349,670</u>	<u>7.88</u>	<u>1,381,016</u>	<u>4.13</u>
Total	<u>\$ 29,818,430</u>	<u>100.00</u>	<u>\$ 33,423,386</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$ 55.90	\$ 56.40
Debt retirement	5.10	5.10

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes 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 items of receivables reported on the Statement of Net Assets at June 30, 2005 follows:

Governmental Activities:

Taxes	\$ 1,586,905
Intergovernmental	<u>14,086</u>
Total	<u><u>\$ 1,600,991</u></u>

A summary of the principal items of receivables reported on the Statement of Net Assets at June 30, 2004 follows:

Governmental Activities:

Taxes	\$ 1,358,962
Intergovernmental	<u>22,206</u>
Total	<u><u>\$ 1,381,168</u></u>

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

NOTE 8 - CAPITAL ASSETS

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

	Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
<i>Governmental Activities</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 590,631	\$ -	\$ -	\$ 590,631
Total capital assets, not being depreciated	<u>590,631</u>	<u>-</u>	<u>-</u>	<u>590,631</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,195,352	1,395	-	1,196,747
Buildings and improvements	14,138,881	-	-	14,138,881
Furniture and equipment	2,109,427	23,941	-	2,133,368
Vehicles	<u>213,624</u>	<u>-</u>	<u>-</u>	<u>213,624</u>
Total capital assets, being depreciated	<u>17,657,284</u>	<u>25,336</u>	<u>-</u>	<u>17,682,620</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(298,980)	(72,498)	-	(371,478)
Buildings and improvements	(1,014,387)	(372,762)	-	(1,387,149)
Furniture and equipment	(513,954)	(270,465)	-	(784,419)
Vehicles	<u>(125,757)</u>	<u>(22,104)</u>	<u>-</u>	<u>(147,861)</u>
Total accumulated depreciation	<u>(1,953,078)</u>	<u>(737,829)</u>	<u>-</u>	<u>(2,690,907)</u>
Governmental activities capital assets, net	<u>\$ 16,294,837</u>	<u>\$ (712,493)</u>	<u>\$ -</u>	<u>\$ 15,582,344</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense at June 30, 2005 was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 318,499
Special	40,082
 <u>Support Services:</u>	
Pupil	7,872
Instructional staff	23,619
Administration	35,786
Fiscal	3,578
Operations and maintenance	7,872
Pupil transportation	22,104
Extracurricular activities	119,526
Food service operations	<u>158,891</u>
Total depreciation expense	<u>\$ 737,829</u>

- B.** The capital asset balances at June 30, 2003 of the governmental activities have been restated due to changes in the District's capital asset policy and to include land values not reported in the prior year. See Note 2.H. for detail:

	Balance 06/30/03	Adjustments	Restated Balance 06/30/03
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 590,631	\$ 590,631
Total capital assets, not being depreciated	<u>-</u>	<u>590,631</u>	<u>590,631</u>
Capital assets, being depreciated:			
Land improvements	247,884	632,600	880,484
Buildings and improvements	14,206,745	(67,864)	14,138,881
Furniture and equipment	508,320	1,598,257	2,106,577
Vehicles	<u>156,895</u>	<u>(4,501)</u>	<u>152,394</u>
Total capital assets, being depreciated	<u>15,119,844</u>	<u>2,158,492</u>	<u>17,278,336</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(1,238,534)</u>	<u>(1,238,534)</u>
Governmental activities capital assets, net	<u>\$ 15,119,844</u>	<u>\$ 1,510,589</u>	<u>\$ 16,630,433</u>

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 590,631	\$ -	\$ -	\$ 590,631
Total capital assets, not being depreciated	<u>590,631</u>	<u>-</u>	<u>-</u>	<u>590,631</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	880,484	314,868	-	1,195,352
Buildings and improvements	14,138,881	-	-	14,138,881
Furniture and equipment	2,106,577	2,850	-	2,109,427
Vehicles	152,394	61,230	-	213,624
Total capital assets, being depreciated	<u>17,278,336</u>	<u>378,948</u>	<u>-</u>	<u>17,657,284</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(247,311)	(51,669)	-	(298,980)
Buildings and improvements	(640,619)	(373,768)	-	(1,014,387)
Furniture and equipment	(243,124)	(270,830)	-	(513,954)
Vehicles	(107,480)	(18,277)	-	(125,757)
Total accumulated depreciation	<u>(1,238,534)</u>	<u>(714,544)</u>	<u>-</u>	<u>(1,953,078)</u>
Governmental activities capital assets, net	<u>\$ 16,630,433</u>	<u>\$ (335,596)</u>	<u>\$ -</u>	<u>\$ 16,294,837</u>

Depreciation expense at June 30, 2004 was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 309,843
Special	38,990
<u>Support Services:</u>	
Pupil	7,658
Instructional staff	22,976
Administration	34,813
Fiscal	3,481
Operations and maintenance	7,658
Pupil transportation	18,277
Extracurricular activities	116,277
Food service operations	<u>154,571</u>
Total depreciation expense	<u>\$ 714,544</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, the District entered into capitalized leases with Sky Bank Leasing for the acquisition and construction of a track and fencing for the athletic field and with Dollar Leasing Corp. for the acquisition of copiers. These leases met 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment and land improvements have been capitalized in the amount of \$451,083. This amount represents the present value of the minimum lease payments at the time of acquisition. The corresponding liabilities were recorded as general long-term obligations of the District. During fiscal years 2005 and 2004, principal payments of \$39,419 and \$4,895 were made from the general fund and \$100,007 and \$40,780 from the permanent improvement capital projects fund, and \$4,078 and \$0 from the Schoolnet improvement fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease agreements and the present value of the minimum lease payments as of June 30, 2005.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$152,617
2007	110,356
2008	<u>2,982</u>
Total minimum lease payments	265,955
Less amount representing interest	<u>(6,518)</u>
Total	<u>\$ 259,437</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2001, the District issued \$2,126,000 in general obligation bonds to provide funds for the construction of a new building for the elementary, middle and high school (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for as long-term obligations of the District. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 5.1 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. The project has been completed.

Interest payments on the general obligation bonds are due on December 1 of each year. The final maturity stated in the issue is December 1, 2022.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

In conjunction with the 5.1 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the capital projects funds.

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

<u>Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2006	\$ 45,000	\$ 107,434	\$ 152,434
2007	55,000	105,095	160,095
2008	60,000	102,378	162,378
2009	65,000	99,393	164,393
2010	70,000	96,135	166,135
2011 - 2015	460,000	394,577	854,577
2016 - 2020	685,000	244,169	929,169
2021 - 2023	<u>525,000</u>	<u>43,589</u>	<u>568,589</u>
Total	<u>\$ 1,965,000</u>	<u>\$ 1,192,770</u>	<u>\$ 3,157,770</u>

- C.** During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/05</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
General obligation bonds	\$ 2,005,000	\$ -	\$ (40,000)	\$ 1,965,000	\$ 45,000
Compensated absences	180,852	41,325	(42,889)	179,288	9,543
Capital lease obligation	<u>402,941</u>	<u>-</u>	<u>(143,504)</u>	<u>259,437</u>	<u>148,181</u>
Total long-term obligations, governmental activities	<u>\$ 2,588,793</u>	<u>\$ 41,325</u>	<u>\$ (226,393)</u>	<u>\$ 2,403,725</u>	<u>\$ 202,724</u>

The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$25,964 from \$182,030 to \$207,994 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$25,156 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$808 from \$2,395,285 to \$2,396,093. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 2,045,000	\$ -	\$ (40,000)	\$ 2,005,000	\$ 40,000
Compensated absences	207,994	13,788	(40,930)	180,852	13,788
Capital lease obligation	<u>143,099</u>	<u>305,517</u>	<u>(45,675)</u>	<u>402,941</u>	<u>144,817</u>
Total long-term obligations, governmental activities	<u>\$ 2,396,093</u>	<u>\$ 319,305</u>	<u>\$ (126,605)</u>	<u>\$ 2,588,793</u>	<u>\$ 198,605</u>

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 and 2004 are a voted debt margin of \$1,135,715 and \$1,053,918, respectively, and an unvoted debt margin of \$33,570 and \$33,423, respectively.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal years 2005 and 2004, the District contracted with Indiana Insurance Company to provide the following coverage:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and Contents - Replacement Cost	\$1,000	\$6,941,390
Inland Marine Coverage	250	122,452
Boiler and Machinery	1,000	6,648,504
Crime Insurance	1,000	250,000
Automobile Liability	250	1,000,000
Uninsured Motorists	250	1,000,000
General Liability		
Per occurrence	0	2,000,000
Total per year	0	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from 2003.

B. Employee Group Health Insurance

The District has joined together with other school districts in Mahoning County to form the Mahoning County School Employees Insurance Consortium, a public entity shared risk pool, currently operating as a common risk management and insurance program for 14 member school districts. The plan was organized to provide life insurance, health care and other benefits to its member organizations.

Rates are calculated and set through an annual update process. The District pays a monthly contribution which is placed in a common fund from which claims and payments are made for all participating districts and claims are paid for all participants regardless of claims flow. Any claim exceeding \$135,000 is covered by the District's stop-loss carrier.

The District pays 88% of the medical insurance premiums for certified and classified employees and their families.

The dental and prescription drug coverage is administered by Professional Risk Management, a third party administrator. The District pays 88% of prescription and dental premiums. Unum provides the life insurance coverage.

C. Workers' Compensation

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2). The GRP's business and affairs are conducted by a three-member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 12 - RISK MANAGEMENT - (Continued)

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 worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$54,059, \$60,457, and \$59,371, respectively; 41.71% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$31,512 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 13 - 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 2005, and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$305,898, \$273,880, and \$277,748, respectively; 85.18% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$45,334 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 and 2004 were \$3,141 made by the District and \$3,298 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, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$21,850 and \$19,563, respectively, during fiscal 2005 and 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had 58,123 participants eligible to receive health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$19,961 and \$30,494, respectively, during the 2005 and 2004 fiscal years.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing uses are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing sources are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

2005 Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (37,054)
Net adjustment for expenditure accruals	29,001
Adjustment for encumbrances	<u>33,057</u>
GAAP basis	<u>\$ 25,004</u>

2004 Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 105,984
Net adjustment for revenue accruals	26,255
Net adjustment for expenditure accruals	15,351
Net adjustment for other sources/uses	(33,501)
Adjustment for encumbrances	<u>64,956</u>
GAAP basis	<u>\$ 179,045</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 16 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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

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

NOTE 17 - STATUTORY RESERVES

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

<u>2005:</u>	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ 57,589	\$ (13,455,712)	\$ 22,184
Current year set-aside requirement	92,349	92,349	-
Qualifying disbursements	<u>(55,273)</u>	<u>(461,521)</u>	<u>-</u>
Total	<u>\$ 94,665</u>	<u>\$ (13,824,884)</u>	<u>\$ 22,184</u>
Cash balance carried forward to FY 2006	<u>\$ 94,665</u>	<u>\$ (13,455,712)</u>	<u>\$ 22,184</u>

The District also receives monies from the State of Ohio which are restricted by state law for the purchase of school buses. This amount is shown as a reserve for bus purchases. The balance of this allocation at year-end is also reflected as a reservation of fund balance in the general fund. The negative amount offset in the capital acquisition set-aside may be carried forward to offset future years' requirements.

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

Amounts restricted for school bus purchases	\$ 83,355
Amounts restricted for BWC refunds	22,184
Amounts restricted for textbooks	<u>94,665</u>
Total restricted assets	<u>\$ 200,204</u>

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 17 - STATUTORY RESERVES - (Continued)

During the fiscal year ended June 30, 2004, the reserve activity was as follows:

<u>2004:</u>	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ 25,177	\$ (13,455,712)	\$ 22,184
Current year set-aside requirement	87,486	87,486	-
Qualifying disbursements	<u>(55,074)</u>	<u>(673,633)</u>	<u>-</u>
Total	<u>\$ 57,589</u>	<u>\$ (14,041,859)</u>	<u>\$ 22,184</u>
Cash balance carried forward to FY 2005	<u>\$ 57,589</u>	<u>\$ (13,455,712)</u>	<u>\$ 22,184</u>

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

Amounts restricted for school bus purchases	\$ 35,262
Amounts restricted for BWC refunds	22,184
Amounts restricted for textbooks	<u>57,589</u>
Total restricted assets	<u>\$ 115,035</u>



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Lowellville Local School District
52 Rocket Place
Lowellville, Ohio 44436-1099

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lowellville Local School District as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the Lowellville Local School District's basic financial statements and have issued our report thereon dated May 3, 2006. As disclosed in Note 3 to the financial statements, for the fiscal year ended 2005, the District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers". As disclosed in the Note 3 to the financial statements, for the fiscal year ended June 30, 2004, the Lowellville Local School District implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, capital assets have been restated due to errors and omissions in prior years and an increase in capitalizations threshold, further, there has been a restatement of fund balances due to errors in prior years. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lowellville Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. However, we noted certain matters that we have reported to the management of Lowellville Local School District, in a separate letter dated May 3, 2006.

Board of Education
Lowellville Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lowellville Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-LLSD-001, 2005-LLSD-002, 2005-LLSD-003 and 2005-LLSD-004. We also noted certain matters that we have reported to the management of the Lowellville Local School District in a separate letter dated May 3, 2006.

This report is intended solely for the information and use of the management and Board of Education of Lowellville Local School District, Mahoning County, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
May 3, 2006

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2005 AND 2004**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-LLSD-001

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit, that the District maintained negative cash fund balances at year end in the following funds:

	<u>Deficit</u>
2005	
<u>Nonmajor Funds</u>	
Ohio Reads	\$ 1,006
2004	
<u>Nonmajor Funds</u>	
Food Service	3,402
Title I	8,720
Reducing Class Size	166

The District has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the District properly expend monies only after funds have been received and subsequent to proper appropriation. This entails the District implementing cash management policies and procedures. Such policies and procedures should include instructions to submit cash draw downs on federal grants in a timely manner and to transfer or advance funds as needed.

If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board of Education approval.

Client Response: The District will monitor expenditures in relation to revenues to avoid negative fund balances and will advance or transfer funds as necessary.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2005 AND 2004**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2005-LLSD-002

Ohio Revised Code Section 5705.39 requires that a subdivision’s total appropriations from each fund should not exceed total estimated resources.

It was noted during the audit that the total appropriations exceeded total estimated resources in the following funds:

2005	
<u>Nonmajor Funds</u>	<u>Excess</u>
Ohio Reads	\$ 1,186
Title I	8,720
Title II-A	165
Food Service	975
 2004	
<u>Nonmajor Funds</u>	
Disadvantaged Pupil Impact Aid	36,000
Title II-D	523
Permanent Improvement	227,900

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or in process of collection and cause fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated revenues will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a regular basis.

Client Response: The District will monitor the budget on a continual basis and make modifications as necessary to ensure appropriations do not exceed estimated resources.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2005 AND 2004**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2005-LLSD-003

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

The District had expenditures exceeding appropriations in the following funds for the years ended June 30, 2005 and 2004:

2005	
<u>Nonmajor Funds</u>	<u>Excess</u>
District Managed Student Activity	\$ 11,596
EMIS	13,782
Entry Year Teacher	1,100
Onenet	6,000
Professional Development Grant	739
Ohio Reads	11,184
Title I	6,689
Title II-D	524
Permanent Improvement	125,170
Schoolnet Plus	4,489
Vision Benefits	2,479
2004	
<u>Nonmajor Funds</u>	
District Managed Student Activity	10,980
EMIS	5,000
Entry Year Teacher	1,100
ONENET Professional Development Grant	6,000
Disadvantaged Pupil Impact	36,000
Title II-D	523
Permanent Improvement	227,900
Ohio Reads	7,116
Summer School Subsidiary	11,899
Title II	8,009
IDEA Part B	21,672
Title I	12,245
Title V	3,397
Title IV	5,346
Title II-A	2,260
Title II-D	1,588
Food Service	15,285
Schoolnet	10,911
Tech Equity	809

Disclosure is presented at the fund level due to practicality of disclosing at the legal level of control.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2005 AND 2004**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2005-LLSD-003

With expenditures exceeding appropriations, the District is unlawfully expending monies that have not been appropriated. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The District will monitor expenditures throughout the year to ensure they do not spend more than appropriated and will modify the budget as necessary.

Finding Number	2004-LLSD-004
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Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that expenditures by the District were not certified in a timely manner. 20% and 14% of expenditures made during the fiscal years ended December 31, 2005 and 2004, respectively.

Without timely certification, the District may expend more funds than available in the treasury, in the process of collection or than funds appropriated.

We recommend that the District implement a policy and procedure for purchases involving the expenditure of money be timely certified to insure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The District should issue approved purchase orders and consider using blanket and super blanket purchase orders and/or “then and now” certificates where applicable.

Client Response: The Treasurer is attempting to utilize the “then and now” certificates when applicable.

**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	The District did not maintain documentation to support changes in capital assets.	No	Partially corrected. Recommendation located in management letter.
2003-002	The District did not maintain documentation to support the financial activities of the Student Activities in the Agency fund.	No	Partially corrected. Citation located in management letter.
2003- 003	Ohio Revised Code Section 5705.36 (A) (4) in part requiring Treasurer to certify decrease in revenues to County Auditor.	Yes	N/A
2003- 004	Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.	No	Finding repeated as 2005-LLSD-003.



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LOWELLVILLE LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 22, 2006**