



**Auditor of State  
Betty Montgomery**



**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Pymatuning Valley Local School District  
Ashtabula County  
5571 Route 6 West  
Andover, Ohio 44003

To the Board of Education:

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

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

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

As described in Note 19, the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

The financial statements reflected on pages 16, 17, 21 and 22 replace those financial statements for the Pymatuning Valley Local School District's fiscal year ended June 30, 2005. These financial statements were revised to correct omissions contained in the previous financial statements.

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

**Betty Montgomery**  
Auditor of State

June 8, 2006, except for the statements referred to in the last paragraph for which the date is November 8, 2006

**Pymatuning Valley Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
*Unaudited*

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The discussion and analysis of Pymatuning Valley Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

*Overall:*

- For governmental activities, net assets increased \$8.03 million, which represents a 43 percent increase from 2004.
- General revenues accounted for \$13.1 million in revenue or 61 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions and capital grants and contributions accounted for \$8.36 million or 39 percent of total governmental revenues of \$21.38 million.
- The District had \$13.47 million in expenses related to governmental activities; with \$1.30 million of these expenses were offset by program specific charges for services, operating grants or contributions. General revenues (primarily taxes and unrestricted grants) of \$13.1 million were adequate to provide for the remainder of these programs.
- Among major funds, the general fund had \$9.63 million in revenues and \$10.16 million in expenditures. The general fund's fund balance decreased to \$ .4 million from \$1.79 million.

**Pymatuning Valley Local School District**  
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### **Using this Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pymatuning Valley Local School 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* provides 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 and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of Pymatuning Valley Local School District, the general fund, debt service, building and classroom facilities funds are by far the most significant funds.

### **Reporting the District as a Whole**

#### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts 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.



**Pymatuning Valley Local School District**  
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In the Statement of Net Assets and the Statement of Activities, the District has one distinct kinds of activity:

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

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 15. 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 financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund, building fund and classroom facilities 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 balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general governmental 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 difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Funds** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the District as a whole.

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**Ashtabula County**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2005  
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**The District as a Whole**

*Governmental Activities*

Table 1 shows net assets for fiscal year 2005 and 2004.

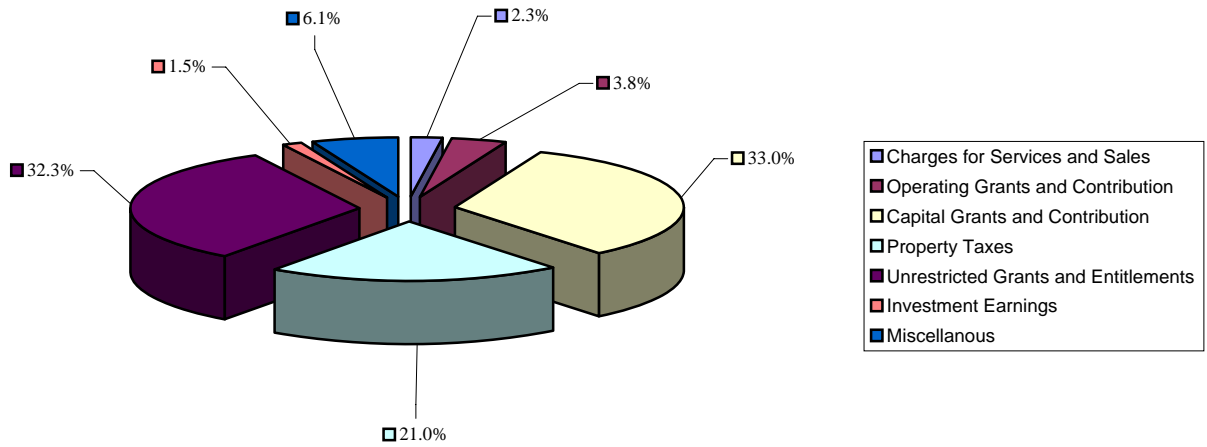
| <u>Assets</u>                             | <u>2005</u>                  | <u>2004</u>                  |
|---|------------------------------|------------------------------|
| Current and Other Assets                  | 20,639,889                   | 36,399,309                   |
| Capital Assets                            | <u>20,704,347</u>            | <u>5,345,278</u>             |
| <br>Total Assets                          | <br><u><u>41,344,236</u></u> | <br><u><u>41,744,587</u></u> |
| <br><u>Liabilities</u>                    |                              |                              |
| Long-Term Liabilities                     | 7,814,356                    | 8,077,017                    |
| Other Liabilities                         | <u>6,792,005</u>             | <u>14,960,016</u>            |
| <br>Total Liabilities                     | <br><u><u>14,606,361</u></u> | <br><u><u>23,037,033</u></u> |
| <br><u>Net Assets</u>                     |                              |                              |
| Invested in Capital Assets Net<br>of Debt | 13,734,347                   | 2,841,233                    |
| Restricted                                | 11,556,208                   | 13,750,078                   |
| Unrestricted (Deficit)                    | <u>1,447,320</u>             | <u>2,116,243</u>             |
| <br>Total Net Assets                      | <br><u><u>26,737,875</u></u> | <br><u><u>18,707,554</u></u> |

What are the District's Revenue Sources?

The following pie graph provides a summary of the District's Governmental Activities revenue sources for 2005.

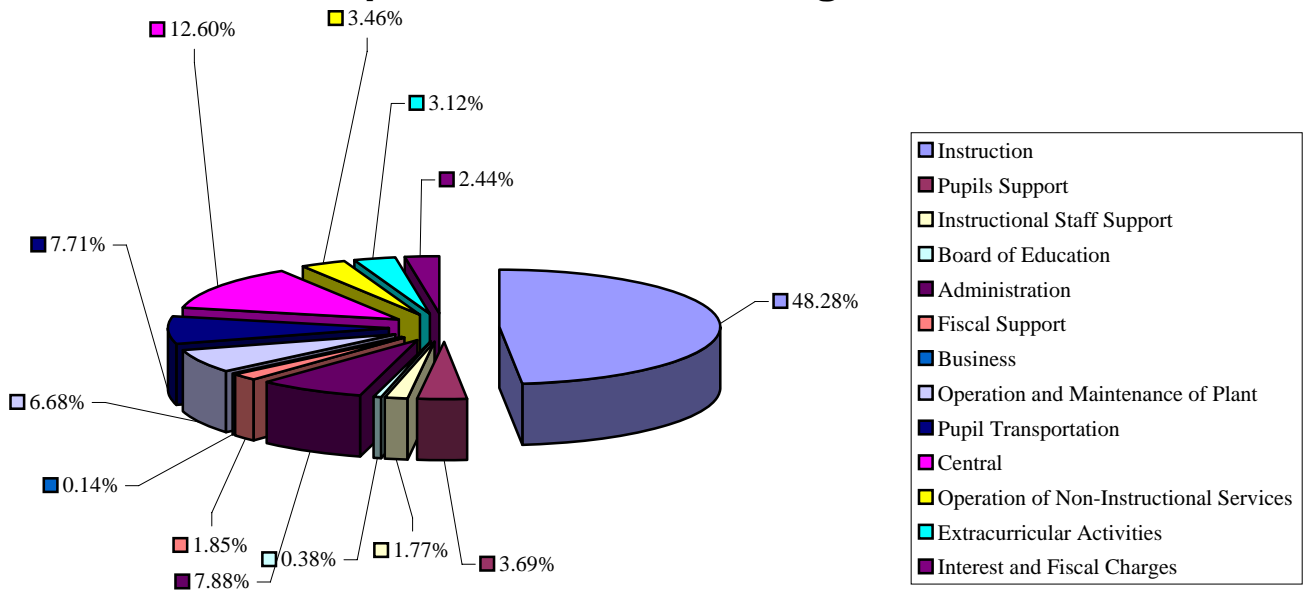
**Pymatuning Valley Local School District**  
**Ashtabula County**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2005  
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**Revenues - Percentage View**



Where does the District spend its revenues?

**Expenditures - Percentage View**



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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 21 percent of revenue for governmental activities for Pymatuning Valley Local School District in fiscal year 2005, which this percentage is lower than normal due to a large amount of revenue from capital grants and entitlements.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 2 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the net cost of these services which are supported by tax revenue and unrestricted state entitlements.

**Table 2**  
**Total and Cost of Program Services-**  
**Governmental Activities**

|   | Total Cost of<br>Service | Net Cost of<br>Service |
|---|--------------------------|------------------------|
| Instruction   | \$ 6,505,575             | \$ 5,510,419           |
| Support Services  |                          |                        |
| Pupil and Instruction Staff                                   | 735,767                  | 735,767                |
| Board of Education,<br>Administration, Fiscal and<br>Business | 1,380,579                | 1,380,579              |
| Operation and Maintenance<br>of Plant                         | 900,448                  | 900,448                |
| Pupil Transportation  | 1,038,896                | 1,038,896              |
| Central   | 1,698,382                | 1,698,382              |
| Operation of Non-Instructional<br>Services                    | 466,290                  | 279,235                |
| Extracurricular Activities                                    | 420,981                  | 293,710                |
| Interest and Fiscal Charges                                   | 328,791                  | 328,791                |
| Total Expenses  | \$ 13,475,709            | \$ 12,166,227          |

**Pymatuning Valley Local School District**  
**Ashtabula County**  
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The dependence upon general tax revenues for governmental activities is apparent. Excluding Capital grants, over 84.7 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 62 percent as shown in the above table. The community, as a whole, is by far the primary support for Pymatuning Valley Local School District students.

***The District's Funds***

Information about the District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18.91 million and expenditures of \$27.58 million. The net change in fund balance decreased by \$8.64 million for fiscal year 2005.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2005 the District amended its General Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of fiscal year 2005 the General Fund, budget revenue was inline with the original budget estimate. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were also in line with projections.

***Capital Assets and Debt Administration***

At the end of fiscal year 2005, the District had \$20.70 million (net) invested in land, buildings, equipment and vehicles in governmental activities.

Table 3 shows fiscal 2005 net fixed asset balances for governmental type activities compared to the prior fiscal year.

**Pymatuning Valley Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
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**Table 3**

**Capital Assets**  
(Net of Accumulated Depreciation)

|                                      | Governmental Type Activities |             |
|--------------------------------------|------------------------------|-------------|
|                                      | <u>2005</u>                  | <u>2004</u> |
| Land and Improvements                | \$478,147                    | \$478,147   |
| Construction-in-progress             | 17,976,774                   | 2,503,085   |
| Buildings and Improvements           | 1,390,306                    | 1,492,110   |
| Improvements other than<br>Buildings | 51,483                       | 53,324      |
| Furniture, Equipment and<br>Fixtures | 205,663                      | 224,347     |
| Vehicles                             | 601,974                      | 594,265     |
| Totals                               | \$20,704,347                 | \$5,345,278 |

The increase in capital assets is due to the District's on going construction project.

The District maintained a \$148,755 budgetary stabilization reserve.

**Debt**

Currently, the District has \$6,970,000 of Notes/Bonds Payable at June 30, 2005. For additional detail, see Note 13.

**Current Financial Related Activities**

Pymatuning Valley Local School District is strong financially. As the preceding information shows, the District heavily depends on its property taxpayers. With the passage of a 3.89 mill operating levy and collection beginning in January 2005, the District has been able to continue its education programs. However, financially the future is not without challenges.

**Pymatuning Valley Local School District**  
**Ashtabula County**  
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While the District was successful in increasing its tax revenue base in 2005, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast.

Declining state foundation payments due to charge-offs by the state provide no significant increase in future revenues. Increases in property tax revenues that do occur are offset by decreases in state foundation payments. With its major source of revenue not keeping pace with expenditure increases, the District must seek additional tax revenue to continue current operations. However, the District cannot look to the State of Ohio for increased revenue and must be on the look out for unexpected additional budget reductions initiated by the Governor.

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 it 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. Virtually, no additional state revenue will be available to Pymatuning Valley Local School District. Thus, both taxes and state revenue are fixed or declining. The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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 Patricia Smith, Treasurer at Pymatuning Valley Local School District, 5571 Route 6 W, Andover, OH 44003.

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**Ashtabula County**  
*Statement of Net Assets*  
*June 30, 2005*

|  |    | <u>Governmental<br/>Activities</u> |
|--|----|------------------------------------|
| <b>Assets</b>                                    |    |                                    |
| Equity in Pooled Cash and Investments            | \$ | 15,333,417                         |
| Receivables:                                     |    |                                    |
| Taxes  |    | 3,654,564                          |
| Accounts Intergovernmental                       |    | 24,131                             |
| Inventory Held for Resale                        |    | 120,728                            |
| Restricted Assets:                               |    |                                    |
| Cash and Cash Equivalents                        |    | 7,715                              |
| Cash and Cash Equivalents in Segregated Accounts |    |                                    |
| With Fiscal Agents                               |    | 253,577                            |
| Materials and Supplies Inventory                 |    | 1,244,106                          |
| Nondepreciable Capital Assets                    |    | 1,651                              |
| Depreciable Capital Assets, Net                  |    | 18,454,921                         |
|  |    | <u>2,249,426</u>                   |
| <i>Total Assets</i>                              | \$ | <u>41,344,236</u>                  |
| <b>Liabilities</b>                               |    |                                    |
| Accounts Payable                                 | \$ | 41,523                             |
| Contracts Payable                                |    | 3,519,753                          |
| Accrued Wages and Benefits                       |    | 1,377,157                          |
| Intergovernmental Payable                        |    | 339,944                            |
| Pension Obligation Payable                       |    | 290,735                            |
| Deferred Revenue                                 |    | 989,255                            |
| Claims Payable                                   |    | 233,638                            |
| Long-Term Liabilities:                           |    |                                    |
| Due Within One Year                              |    | 399,633                            |
| Due Within More Than One Year                    |    | 7,414,723                          |
|  |    | <u>7,414,723</u>                   |
| <i>Total Liabilities</i>                         | \$ | <u>14,606,361</u>                  |
| <b>Net Assets</b>                                |    |                                    |
| Invested in Capital Assets, Net of Related Debt  | \$ | 13,734,347                         |
| Restricted for:                                  |    |                                    |
| Capital Projects                                 |    | 10,071,452                         |
| Debt Service                                     |    | 1,194,141                          |
| Other Purposes                                   |    | 290,615                            |
| Unrestricted (Deficit)                           |    | <u>1,447,320</u>                   |
| <i>Total Net Assets</i>                          | \$ | <u>26,737,875</u>                  |

See accompanying notes to the basic financial statements



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**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**Ashtabula County**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

|   | Program Revenues  |                                   |                                       |
|---|-------------------|-----------------------------------|---------------------------------------|
|   | Expenses          | Charges for<br>Services and Sales | Operating Grants<br>and Contributions |
| <b>Governmental Activities</b>          |                   |                                   |                                       |
| Instruction:                            |                   |                                   |                                       |
| Regular                                 | \$ 4,775,632      | \$ 182,026                        | \$ 813,130                            |
| Special                                 | 1,051,184         | -                                 | -                                     |
| Vocational                              | 303,080           | -                                 | -                                     |
| Adult/Continuing                        | 8,500             | -                                 | -                                     |
| Other                                   | 367,179           | -                                 | -                                     |
| Support Services:                       |                   |                                   |                                       |
| Pupils                                  | 496,678           | -                                 | -                                     |
| Instructional Staff                     | 239,089           | -                                 | -                                     |
| Board of Education                      | 50,695            | -                                 | -                                     |
| Administration                          | 1,062,386         | -                                 | -                                     |
| Fiscal                                  | 249,048           | -                                 | -                                     |
| Business                                | 18,450            | -                                 | -                                     |
| Operation and Maintenance of Plant      | 900,448           | -                                 | -                                     |
| Pupil Transportation                    | 1,038,896         | -                                 | -                                     |
| Central                                 | 1,698,382         | -                                 | -                                     |
| Operation of Non-Instructional Services | 466,290           | 187,055                           | -                                     |
| Extracurricular Activities              | 420,981           | 127,271                           | -                                     |
| Interest and Fiscal Charges             | 328,791           | -                                 | -                                     |
| <i>Total Governmental Activities</i>    | <u>13,475,709</u> | <u>496,352</u>                    | <u>813,130</u>                        |

**General Revenues**

Property Taxes Levied for:  
General Purposes  
Debt Service  
Other Purposes  
Grants and Entitlements not Restricted to Specific Programs  
Investment Earnings  
Gain (Loss) on Sale of Capital Assets  
Refund of Prior Year Expenditures  
Other Non-operating Revenues  
Miscellaneous

*Total General Revenues*

Changes in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

| Capital Grants<br>and Contributions | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets | Governmental<br>Activities |
|-------------------------------------|--|----------------------------|
| 7,060,259                           | \$   | 3,279,783                  |
| -                                   |  | (1,051,184)                |
| -                                   |  | (303,080)                  |
| -                                   |  | (8,500)                    |
| -                                   |  | (367,179)                  |
| -                                   |  | (496,678)                  |
| -                                   |  | (239,089)                  |
| -                                   |  | (50,695)                   |
| -                                   |  | (1,062,386)                |
| -                                   |  | (249,048)                  |
| -                                   |  | (18,450)                   |
| -                                   |  | (900,448)                  |
| -                                   |  | (1,038,896)                |
| -                                   |  | (1,698,382)                |
| -                                   |  | (279,235)                  |
| -                                   |  | (293,710)                  |
| -                                   |  | (328,791)                  |
| 7,060,259                           |  | (5,105,968)                |

|    |            |
|----|------------|
| \$ | 3,520,442  |
|    | 876,914    |
|    | 86,942     |
|    | 6,902,401  |
|    | 439,581    |
|    | (3,156)    |
|    | 26,434     |
|    | 94,465     |
|    | 1,192,266  |
|    | 13,136,289 |
|    | 8,030,321  |
|    | 18,707,554 |
| \$ | 26,737,875 |

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**Ashtabula County**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2005*

|  | General             | Debt<br>Service<br>Fund | Building<br>Fund    | Classroom<br>Facilities<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------|---------------------|---------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                              |                     |                         |                     |                                 |                                |                                |
| Equity in Pooled Cash and Investments      | \$ 1,057,251        | \$ 296,892              | \$ 3,623,559        | \$ 9,730,090                    | \$ 625,625                     | \$ 15,333,417                  |
| Receivables:                               |                     |                         |                     |                                 |                                |                                |
| Taxes                                      | 2,886,621           | 711,400                 | -                   | -                               | 56,543                         | 3,654,564                      |
| Accounts                                   | 24,131              | -                       | -                   | -                               | -                              | 24,131                         |
| Intergovernmental                          | -                   | -                       | -                   | -                               | 120,728                        | 120,728                        |
| Inventory Held for Resale                  | -                   | -                       | -                   | -                               | 7,715                          | 7,715                          |
| Restricted Assets:                         |                     |                         |                     |                                 |                                |                                |
| Cash and Cash Equivalents                  | 253,577             | -                       | -                   | -                               | -                              | 253,577                        |
| Materials and Supplies Inventory           | -                   | -                       | -                   | -                               | 1,651                          | 1,651                          |
| Interfund Receivables                      | 65,973              | -                       | -                   | -                               | -                              | 65,973                         |
| <b>Total Assets</b>                        | <u>4,287,553</u>    | <u>1,008,292</u>        | <u>3,623,559</u>    | <u>9,730,090</u>                | <u>812,262</u>                 | <u>19,461,756</u>              |
| <b>Liabilities</b>                         |                     |                         |                     |                                 |                                |                                |
| Accounts Payable                           | 17,042              | -                       | -                   | -                               | 24,481                         | 41,523                         |
| Contracts Payable                          | -                   | -                       | -                   | 3,519,753                       | -                              | 3,519,753                      |
| Accrued Wages and Benefits                 | 1,136,548           | -                       | -                   | -                               | 97,162                         | 1,233,710                      |
| Compensated Absences Payable               | 13,636              | -                       | -                   | -                               | -                              | 13,636                         |
| Pension Obligation Payable                 | 253,568             | -                       | -                   | -                               | 37,167                         | 290,735                        |
| Interfund Payable                          | -                   | -                       | -                   | -                               | 65,973                         | 65,973                         |
| Due to Other Funds                         | 143,447             | -                       | -                   | -                               | -                              | 143,447                        |
| Intergovernmental Payable                  | 319,325             | -                       | -                   | -                               | 20,619                         | 339,944                        |
| Deferred Revenue                           | 2,002,541           | 494,455                 | -                   | -                               | 57,342                         | 2,554,338                      |
| <b>Total Liabilities</b>                   | <u>3,886,107</u>    | <u>494,455</u>          | <u>-</u>            | <u>3,519,753</u>                | <u>302,744</u>                 | <u>8,203,059</u>               |
| <b>Fund Balances</b>                       |                     |                         |                     |                                 |                                |                                |
| Reserved for:                              |                     |                         |                     |                                 |                                |                                |
| Encumbrances                               | 10,200              | -                       | 630                 | 6,390,639                       | 52,327                         | 6,453,796                      |
| Textbooks                                  | 104,822             | -                       | -                   | -                               | -                              | 104,822                        |
| Property Taxes                             | 259,330             | 4,052                   | -                   | -                               | 353                            | 263,735                        |
| Budget Stabilization                       | 148,755             | -                       | -                   | -                               | -                              | 148,755                        |
| Undesignated, Reported in:                 |                     |                         |                     |                                 |                                |                                |
| General Fund                               | (121,661)           | -                       | -                   | -                               | -                              | (121,661)                      |
| Special Revenue Funds                      | -                   | -                       | -                   | -                               | 270,620                        | 270,620                        |
| Debt Service Funds                         | -                   | 509,785                 | -                   | -                               | -                              | 509,785                        |
| Capital Projects Funds                     | -                   | -                       | 3,622,929           | (180,302)                       | 186,218                        | 3,628,845                      |
| <b>Total Fund Balances</b>                 | <u>401,446</u>      | <u>513,837</u>          | <u>3,623,559</u>    | <u>6,210,337</u>                | <u>509,518</u>                 | <u>11,258,697</u>              |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 4,287,553</u> | <u>\$ 1,008,292</u>     | <u>\$ 3,623,559</u> | <u>\$ 9,730,090</u>             | <u>\$ 812,262</u>              | <u>\$ 19,461,756</u>           |

See accompanying notes to the basic financial statements

**Pymatuning Valley Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2005*

**Total Governmental Fund Balances** \$ 11,258,697

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 20,704,347

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 1,010,468

Long-term liabilities, including bonds, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

|                                  |                    |
|----------------------------------|--------------------|
| Compensated Absences             | (830,720)          |
| Deferred Revenue                 | 1,565,083          |
| General Obligation Bonds Payable | <u>(6,970,000)</u> |

Total (6,235,637)

***Net Assets of Governmental Activities*** **\$ 26,737,875**

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**Ashtabula County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

|  | General            | Debt<br>Service<br>Fund | Building<br>Fund    | Classroom<br>Facilities<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|-------------------------|---------------------|---------------------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                    |                         |                     |                                 |                                |                                |
| Taxes  | \$ 2,530,595       | \$ 608,023              | \$ -                | \$ -                            | \$ 48,060                      | \$ 3,186,678                   |
| Intergovernmental  | 6,831,100          | 71,301                  | -                   | 7,034,882                       | 838,507                        | 14,775,790                     |
| Interest   | 69,933             | -                       | 54,256              | 305,620                         | 163                            | 429,972                        |
| Tuition and Fees   | 180,329            | -                       | -                   | -                               | -                              | 180,329                        |
| Extracurricular Activities                               | -                  | -                       | -                   | -                               | 127,271                        | 127,271                        |
| Food Service   | -                  | -                       | -                   | -                               | 187,055                        | 187,055                        |
| Classroom Materials and Fees                             | -                  | -                       | -                   | -                               | 1,697                          | 1,697                          |
| Miscellaneous  | 24,643             | -                       | -                   | -                               | 798                            | 25,441                         |
| <b>Total Revenues</b>                                    | <b>9,636,600</b>   | <b>679,324</b>          | <b>54,256</b>       | <b>7,340,502</b>                | <b>1,203,551</b>               | <b>18,914,233</b>              |
| <b>Expenditures</b>                                      |                    |                         |                     |                                 |                                |                                |
| Current:   |                    |                         |                     |                                 |                                |                                |
| Instruction:   |                    |                         |                     |                                 |                                |                                |
| Regular  | 4,629,680          | -                       | -                   | -                               | 162,872                        | 4,792,552                      |
| Special  | 764,711            | -                       | -                   | -                               | 317,934                        | 1,082,645                      |
| Vocational   | 299,059            | -                       | -                   | -                               | -                              | 299,059                        |
| Other  | 367,179            | -                       | -                   | -                               | 8,500                          | 375,679                        |
| Support Services:  |                    |                         |                     |                                 |                                |                                |
| Pupils   | 463,805            | -                       | -                   | -                               | 6,285                          | 470,090                        |
| Instructional Staff                                      | 195,998            | -                       | -                   | -                               | 38,587                         | 234,585                        |
| Board of Education                                       | 50,695             | -                       | -                   | -                               | -                              | 50,695                         |
| Administration   | 1,050,107          | -                       | -                   | -                               | 14,595                         | 1,064,702                      |
| Fiscal   | 258,815            | -                       | -                   | -                               | 1,639                          | 260,454                        |
| Business   | 36,567             | -                       | -                   | -                               | 4,620                          | 41,187                         |
| Operation and Maintenance of Plant                       | 872,747            | -                       | -                   | -                               | 10,268                         | 883,015                        |
| Pupil Transportation                                     | 839,752            | -                       | -                   | -                               | 104,939                        | 944,691                        |
| Central  | 20,759             | -                       | -                   | -                               | 9,000                          | 29,759                         |
| Operation of Non-Instructional Services                  | 27,419             | -                       | -                   | -                               | 451,699                        | 479,118                        |
| Extracurricular Activities                               | 286,954            | -                       | -                   | -                               | 118,105                        | 405,059                        |
| Capital Outlay   | -                  | -                       | 19,356              | 15,663,078                      | (85,946)                       | 15,596,488                     |
| Debt Service:  |                    |                         |                     |                                 |                                |                                |
| Principal Retirement                                     | -                  | 245,960                 | -                   | -                               | -                              | 245,960                        |
| Interest and Fiscal Charges                              | -                  | 328,791                 | -                   | -                               | -                              | 328,791                        |
| <b>Total Expenditures</b>                                | <b>10,164,247</b>  | <b>574,751</b>          | <b>19,356</b>       | <b>15,663,078</b>               | <b>1,163,097</b>               | <b>27,584,529</b>              |
| <i>Excess of Revenue Over/(Under) Expenditures</i>       | (527,647)          | 104,573                 | 34,900              | (8,322,576)                     | 40,454                         | (8,670,296)                    |
| <b>Other Financing Sources (Uses)</b>                    |                    |                         |                     |                                 |                                |                                |
| Refund of Prior Year Expenditures                        | 26,434             | -                       | -                   | -                               | -                              | 26,434                         |
| Transfer In  | -                  | -                       | 821,846             | 82,554                          | 65,960                         | 970,360                        |
| Transfer Out   | (887,806)          | -                       | -                   | (82,554)                        | -                              | (970,360)                      |
| <b>Total Other Financing Sources (Uses)</b>              | <b>(861,372)</b>   | <b>-</b>                | <b>821,846</b>      | <b>-</b>                        | <b>65,960</b>                  | <b>26,434</b>                  |
| <b>Net Change in Fund Balances</b>                       | <b>(1,389,019)</b> | <b>104,573</b>          | <b>856,746</b>      | <b>(8,322,576)</b>              | <b>106,414</b>                 | <b>(8,643,862)</b>             |
| <i>Beginning Fund Balances, as Restated, See Note 19</i> | 1,790,465          | 409,264                 | 2,766,813           | 14,532,913                      | 403,104                        | 19,902,559                     |
| <b>Fund Balances End of Year</b>                         | <b>\$ 401,446</b>  | <b>\$ 513,837</b>       | <b>\$ 3,623,559</b> | <b>\$ 6,210,337</b>             | <b>\$ 509,518</b>              | <b>\$ 11,258,697</b>           |

See accompanying notes to the basic financial statements

**Pymatuning Valley Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in the 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** \$ (8,643,862)

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

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

|                           |            |            |
|---------------------------|------------|------------|
| Fixed Assets Additions    | 15,596,488 |            |
| Current Year Depreciation | (234,263)  |            |
| Loss on Sale of Assets    | (3,156)    |            |
|                           |            |            |
| Total                     |            | 15,359,069 |

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

|       |  |           |
|-------|--|-----------|
| Taxes |  | 1,297,620 |
|-------|--|-----------|

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

|               |  |         |
|---------------|--|---------|
| Capital Lease |  | 245,000 |
|---------------|--|---------|

|  |  |     |
|--|--|-----|
|  |  | 960 |
|--|--|-----|

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

|                              |  |         |
|------------------------------|--|---------|
| Compensated Absences Payable |  | 169,258 |
|------------------------------|--|---------|

The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal services fund is allocated amount the governmental activities.

(397,724)

*Change in Net Assets of Governmental Activities*

\$ 8,030,321

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**ASHTABULA COUNTY**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2005

|   | <u>Budgeted Amount</u> |                      |                     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------------|----------------------|---------------------|---|
|   | Original               | Final                | Actual              |   |
| <b>Revenues:</b>                                    |                        |                      |                     |   |
| Taxes   | \$ 2,158,000           | \$ 2,932,016         | \$ 2,759,939        | \$ (172,077)  |
| Intergovernmental                                   | 6,826,165              | 6,831,230            | 6,831,101           | (129)   |
| Interest  | 35,000                 | 73,000               | 69,933              | (3,067)   |
| Tuition   | 183,000                | 185,550              | 180,329             | (5,221)   |
| Classroom Materials and Fees                        | 800                    | 860                  | -                   | (860)   |
| Miscellaneous                                       | 72,981                 | 77,277               | 71,073              | (6,204)   |
| <b>Total Revenues</b>                               | <b>9,275,946</b>       | <b>10,099,933</b>    | <b>9,912,375</b>    | <b>(187,558)</b>  |
| <b>Expenditures:</b>                                |                        |                      |                     |   |
| Current:  |                        |                      |                     |   |
| Instruction:  |                        |                      |                     |   |
| Regular   | 4,951,885              | 4,858,443            | 4,498,890           | 359,553   |
| Special   | 760,970                | 846,065              | 745,486             | 100,579   |
| Vocational  | 278,837                | 326,056              | 291,861             | 34,195  |
| Other   | 344,000                | 390,358              | 367,179             | 23,179  |
| <b>Total Instruction</b>                            | <b>6,335,692</b>       | <b>6,420,922</b>     | <b>5,903,416</b>    | <b>517,506</b>  |
| Support Services:                                   |                        |                      |                     |   |
| Pupils  | 457,721                | 478,351              | 448,044             | 30,307  |
| Instructional Staff                                 | 230,754                | 220,882              | 184,889             | 35,993  |
| Board of Education                                  | 47,370                 | 57,418               | 50,378              | 7,040   |
| Administration                                      | 1,106,318              | 1,106,318            | 982,835             | 123,483   |
| Fiscal  | 262,206                | 263,712              | 248,158             | 15,554  |
| Business  | 47,500                 | 47,500               | 36,567              | 10,933  |
| Operation and Maintenance of Plant                  | 1,033,725              | 1,007,322            | 850,193             | 157,129   |
| Pupils Transportation                               | 875,097                | 875,324              | 760,341             | 114,983   |
| Central   | 74,000                 | 34,349               | 20,759              | 13,590  |
| Community   | 27,000                 | 29,419               | 27,419              | 2,000   |
| <b>Total Support Services</b>                       | <b>4,161,691</b>       | <b>4,120,595</b>     | <b>3,609,583</b>    | <b>511,012</b>  |
| Extracurricular Activities:                         |                        |                      |                     |   |
| Academic and Subject Oriented Activities            | 96,835                 | 93,809               | 49,500              | 44,309  |
| Sports Oriented Activities                          | 335,545                | 335,545              | 239,322             | 96,223  |
| <b>Total Extracurricular Activities</b>             | <b>432,380</b>         | <b>429,354</b>       | <b>288,822</b>      | <b>140,532</b>  |
| <b>Total Capital Outlay</b>                         | <b>80,000</b>          | <b>80,000</b>        | <b>-</b>            | <b>80,000</b>   |
| <b>Total Expenditures</b>                           | <b>\$ 11,009,763</b>   | <b>\$ 11,050,871</b> | <b>\$ 9,801,821</b> | <b>\$ 1,249,050</b>                                     |
| <i>Excess of Revenues Over/(Under) Expenditures</i> | (1,733,817)            | (950,938)            | 110,554             | 1,061,492   |
| <b>Other Financing Sources (Uses):</b>              |                        |                      |                     |   |
| Transfers Out                                       | (90,000)               | (892,806)            | (887,806)           | (5,000)   |
| Advances Out  | (45,000)               | (70,000)             | (65,972)            | (4,028)   |
| Refund prior years receipts                         | (2,000)                | (2,000)              | -                   | (2,000)   |
| <b>Total Other Financing Sources (Uses)</b>         | <b>(137,000)</b>       | <b>(964,806)</b>     | <b>(953,778)</b>    | <b>(11,028)</b>   |
| <b>Net Change in Fund Balance</b>                   | <b>(1,870,817)</b>     | <b>(1,915,744)</b>   | <b>(843,224)</b>    | <b>(1,072,520)</b>                                      |
| Fund Balance at The Beginning of Year               | 1,968,183              | 1,968,183            | 1,968,183           | -   |
| Prior Year Encumbrances Appropriated                | -                      | -                    | -                   | -   |
| <b>Fund Balance at The End of Year</b>              | <b>\$ 97,366</b>       | <b>\$ 52,439</b>     | <b>\$ 1,124,959</b> | <b>(1,072,520)</b>                                      |

See accompanying notes to the basic financial statements.



**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**

**Ashtabula County**

*Statement of Fund Assets*

*Proprietary Funds*

*June 30, 2005*

|                                   | <u>Governmental<br/>Activities -<br/>Internal<br/>Service Fund</u> |
|-----------------------------------|--|
| <b>Assets</b>                     |  |
| Cash and Cash Equivalents:        |  |
| With Fiscal Agents                | \$ 1,244,106   |
| Due from Other Funds              | <u>319,006</u>   |
| <i>Total Assets</i>               | <u><u>1,563,112</u></u>  |
| <b>Liabilities</b>                |  |
| Accounts Payable                  | 319,006  |
| Claims Payable                    | <u>233,638</u>   |
| <i>Total Liabilities</i>          | 552,644  |
| <b>Net Assets</b>                 |  |
| Unrestricted                      | <u>1,010,468</u>   |
| <i>Total Net Assets (Deficit)</i> | <u><u>\$ 1,010,468</u></u>   |

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**

*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2005*

|   | <u>Governmental<br/>Activities -<br/>Internal<br/>Service Fund</u> |
|---|--|
| <b>Operating Revenues</b>                     |  |
| Charges for Services                          | <u>\$ 1,166,825</u>  |
| <i>Total Operating Revenues</i>               | 1,166,825  |
| <b>Operating Expenses</b>                     |  |
| Claims  | <u>1,668,623</u>   |
| <i>Total Operating Expenses</i>               | <u>1,668,623</u>   |
| <i>Operating Income (Loss)</i>                | (501,798)  |
| <b>Non-Operating Revenues (Expenses)</b>      |  |
| Interest                                      | 9,609  |
| Other Non-operating Revenues                  | <u>94,465</u>  |
| <i>Total Non-Operating Revenues</i>           | <u>104,074</u>   |
| <i>Change in Net Assets</i>                   | (397,724)  |
| <i>Net Assets (Deficit) Beginning of Year</i> | <u>1,408,192</u>   |
| <i>Net Assets (Deficit) End of Year</i>       | <u><u>\$ 1,010,468</u></u>   |

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Year Ended June 30, 2005*

|  | <u>Governmental<br/>Activities -<br/>Internal<br/>Service Fund</u> |
|--|--|
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>  |  |
| <b>Cash Flows from Operating Activities</b>  |  |
| Cash Received from Customers   | \$ 1,164,169   |
| Other Cash Receipts  | \$ 94,465  |
| Cash Payments for Claims   | <u>(1,664,105)</u>   |
| <i>Net Cash Provided by (Used in) Operating Activities</i>   | (405,471)  |
| <b>Cash Flows from Investing Activities</b>  |  |
| Interest on Investments  | <u>9,609</u>   |
| <i>Net Cash Provided by (Used by) Investing Activities</i>   | <u>9,609</u>   |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>  | (395,862)  |
| <i>Cash and Cash Equivalents Beginning of Year</i>   | <u>1,639,968</u>   |
| <i>Cash and Cash Equivalents End of Year</i>   | <u><u>\$ 1,244,106</u></u>   |
| <br>   |  |
| <b>Reconciliation of Operating Loss to Net Cash<br/>Provided by (Used in) Operating Activities</b> |  |
| <i>Operating Income (Loss)</i>   | \$ (501,798)   |
| Adjustments:   |  |
| Other Non-Operating Revenues   | 94,465   |
| (Increase) Decrease in Assets:   |  |
| Due from Other Funds   | (2,656)  |
| Increase (Decrease) in Liabilities:  |  |
| Accounts Payable   | 2,656  |
| Claims Payable   | <u>1,862</u>   |
| <i>Total Adjustments</i>   | <u>96,327</u>  |
| <i>Net Cash Provided by (Used in) Operating Activities</i>   | <u><u>\$ (405,471)</u></u>   |

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
**Ashtabula County**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2005*

|  | Private Purpose<br>Trust |           |
|--|--------------------------|-----------|
|  | Scholarship              | Agency    |
| <b>Assets</b>                              |                          |           |
| Equity in Pooled Cash and Cash Equivalents | \$ 26,833                | \$ 51,865 |
| <i>Total Assets</i>                        | 26,833                   | 51,865    |
| <b>Liabilities</b>                         |                          |           |
| Due to Students                            | -                        | 51,865    |
| <i>Total Liabilities</i>                   | -                        | \$ 51,865 |
| <b>Net Assets</b>                          |                          |           |
| Held in Trust for Scholarships             | 26,833                   |           |
| <i>Total Net Assets</i>                    | \$ 26,833                |           |

See accompanying notes to the basic financial statements

**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Year Ended June 30, 2005*

|                                     | Private Purpose<br>Trust |
|-------------------------------------|--------------------------|
|                                     | Scholarship              |
| <b>Addition</b>                     |                          |
| Interest                            | \$ 448                   |
| <b>Deduction</b>                    | 304                      |
| <i>Change in Net Assets</i>         | 144                      |
| <i>Net Assets Beginning of Year</i> | 26,689                   |
| <i>Net Assets End of Year</i>       | \$ 26,833                |

See accompanying notes to the basic financial statements

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**Pymatuning Valley Local School**  
**Ashtabula County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005

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**Note 1 – Description of the School District and Reporting Entity**

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2004, was 1,422. The District employed 90 certified employees and 45 non-certificated employees. The District is supervised by the Ashtabula County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the District is financially accountable. This report includes all activities considered by management to be part of the District by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

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A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the District over which the District is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

The financial statements of the Pymatuning Valley Local School (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 Standard Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental and business activities, and its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

***A. Fund Accounting***

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the District are group into the following generic fund type under the board fund categories: governmental and fiduciary.

***Governmental Fund Types*** Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of “available spendable resources” during the period.

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



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Building Fund - This fund is used to account for the financial resources designated to be used for the construction of a new building.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

Classroom Facilities Fund – This fund is used to account for financial resources contributed by the Ohio Schools Facilities Commission and designated for the addition and renovations of the school buildings.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The only internal service fund of the School District accounts for a self-insurance program which provides medical, dental and vision benefits to employees.

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

***B. Basis Of Presentation***

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

The government-wide statements are prepared using the economic resources measurement focus. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relation between the government-wide statements and the statements to governmental funds.

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

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***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 represented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

The trust fund is reported using the economic resources measurement focus.

***C. 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. Proprietary and fiduciary fund also use the accrual basis of accounting.

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 year-end.

Non-exchange 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 5). 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 non-exchange 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 arises when assets are recognized before revenue recognition criteria have been satisfied.

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Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

***D. Budget and Budgetary Accounting***

All governmental fund types are subject to annual expenditure budgets. The Board follows the procedures outlined below in establishing the expenditure budget data reported in the basic financial statements:

***Tax Budget*** A tax budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20th of each year, for the fiscal year commencing the following July 1st. The Board of Education normally adopts the Tax Budget at its regular board meeting in January. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

***Estimated Resources*** The County Budget Commission certifies its actions to the District by March 1st. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. During the month of July, this certificate is amended to include any unencumbered balances from the preceding fiscal year.

***Appropriations*** An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Board of Education usually adopts temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the September regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund at the object level.

***Encumbrances*** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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***Lapsing of Appropriations*** At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

***E. Cash and Investments***

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. 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 Investments." During the fiscal year, all investments were limited to Federal agency bonds and notes, certificates of deposit, the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings accrue to the General Fund, Building Fund, Classroom Facilities Fund, Special Trust Fund, Private-Purposes Trust Fund and Internal Service Fund, as authorized by Board resolution. Interest income earned in fiscal year 2005 totaled \$440,029.

***F. Taxes Receivable***

The financial statements reflect taxes receivable as of June 30, 2005. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2005 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

***G. Inventories***

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and general supplies. The cost of the governmental fund type inventories are recorded as expenditures when purchased

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(purchased method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

***I. Capital Assets***

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related 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 purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

| Description               | Governmental Activities<br>Estimated Lives |
|---------------------------|--|
| Building and Improvements | 30 - 50 years                              |
| Furniture                 | 20 years                                   |
| Equipment                 | 10 -20 years                               |
| Fixtures                  | 15 years                                   |
| Vehicles                  | 10 years                                   |

***J. Interfund Balances***

On the fund financial statements, receivables and payables resulting short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental columns of the statement of net assets.

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***K. 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 from them are not presented on the financial statements.

***L. Compensated Absences***

The District accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. This method is known as the vesting method. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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

The current portion of unpaid compensated absence, which expected to be paid using the available expendable resources, is reported on the governmental funds financial statements. The amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

***M. Accrued Liabilities and Long-term Obligations***

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

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In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits 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 fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

***N. 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 appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The net assets held in trust for scholarships signify the legal restrictions on the use of principal.

***O. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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 the purposes for which both restricted and unrestricted net assets are available.

***P. Restricted Assets***

Assets are reported as restricted on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund are monies required by State statute to be set-aside for the purchase of textbooks and to create a reserve for budget stabilization.

***Q. Estimates***

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

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**Note 3 – Budgetary Basis of Accounting**

While the District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances –Budget (Non-GAAP Budget Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for (GAAP basis).
4. Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

*Net Change in Fund Balance*

|   |    |             |
|---|----|-------------|
| Budget Basis                            | \$ | (843,224)   |
| Net Adjustment for Revenue Accruals     |    | (275,775)   |
| Net Adjustment for Expenditure Accruals |    | (362,426)   |
| Adjustment for Encumbrances             |    | 92,406      |
|   |    | 92,406      |
| GAAP Basis                              | \$ | (1,389,019) |

**Note 4 – Cash and Investments**

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

Inactive deposits are public deposits that the District has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by



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certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

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

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**Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$6,884,250 of the School District's bank balance of \$7,141,975 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirement of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred give percent of the deposited being secured.

**Investments**

As of June 30, 2005, the School District had the following investments. All investments are in an internal investment pool.

|  | Fair<br>Value |
|--|---------------|
| Categorized Investments:                   |               |
| Federal Treasury Obligations, Money Market | \$ 1,681,517  |
| Federal Home Loan Mortgage Bank Bonds      | 2,416,142     |
| Federal Home Loan Mortgage Corporation     | 1,022,781     |
| Federal Farm Credit Bank                   | 602,093       |
| Federal National Mortgage Association      | 2,801,184     |
| Total Categorized Investments              | 8,523,717     |
| Total Investments                          | \$ 8,523,717  |

**Interest Rate Risk** The School District has no investment policy that addresses the interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

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**Credit Risk** The AIM Money Market Mutual Fund, Federal Home Loan Bank Bonds, and the Federal National Mortgage Association Notes all carry a rating of AAA by Standard & Pool's and STAR Ohio also carries a rating of AAAM by Standard & Pool's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2005:

| Investment                                 | Investment |
|--|------------|
| Federal Treasury Obligations, Money Market | 19.73%     |
| Federal Home Loan Mortgage Bank Bonds      | 28.35%     |
| Federal Home Loan Mortgage Corporation     | 12.00%     |
| Federal Farm Credit Bank                   | 7.06%      |
| Federal National Mortgage Association      | 32.86%     |

**Funds Held by Fiscal Agent:** The District participates in the OME-RESA Health Insurance Consortium for employee health benefits which is administered by Self-Funded Plans, Inc., also see note 12 B. The District's account balance at fiscal year end for the Employee Benefit Self-Insurance Fund was \$1,244,106. All deposits made to the District's Health Insurance account are managed by Self-Funded Plans, Inc. Collateral is held by a qualified third party trustee in the name of the administrator.

**Note 5 – Property Tax**

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Ashtabula County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was done in 2005. The next revaluation is scheduled for 2008.

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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 usually due February 14, with the remainder payable June 20. Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually, the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Ashtabula County Treasurer collects property taxes on behalf of the District. The Ashtabula County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2005 for operations was \$33.23 per \$1,000 of assessed valuation and for permanent improvements, \$5.40 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2005 taxes were collected were as follows:

|                            | <u>2005</u>           | <u>2004</u>           |
|----------------------------|-----------------------|-----------------------|
| Real Property              |                       |                       |
| Commercial/Industrial      | \$ 14,294,740         | \$ 14,080,000         |
| Residential/Agricultural   | 90,568,510            | 88,898,970            |
| Public Utilities           | 69,960                | 70,510                |
| Tangible Personal Property |                       |                       |
| Personal                   | 8,739,600             | 8,968,110             |
| Public Utilities           | <u>8,282,690</u>      | <u>8,032,720</u>      |
| Total Valuation            | <u>\$ 121,955,500</u> | <u>\$ 120,050,310</u> |

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**Note 6 – Receivables**

Receivables at June 30, 2005 consisted of taxes, accounts (miscellaneous), 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 guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

|                               |                       |
|-------------------------------|-----------------------|
| Non-major Governmental Funds: |                       |
| Title One                     | \$76,622              |
| Federal Lunch Reimbursement   | <u>26,995</u>         |
| <br>Total                     | <br><u>\$ 103,617</u> |

**Note 7 – Interfund Balances**

***A. Interfund Transfers***

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

| <u>Fund</u>          | <u>Transfer Out</u> | <u>Transfer In</u> |
|----------------------|---------------------|--------------------|
| Classroom Facilities | 82,554              |                    |
| General              | \$ 887,806          |                    |
| Title I              |                     | \$ 65,960          |
| Building Fund        |                     | 821,846            |
| Classroom Facilities |                     | 82,554             |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization. Transfers are also used to close out the funds that are no longer required.

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**Note 8 – Capital Assets**

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

|   | Balance<br>7/1/2004 | Addition             | Deletion          | Balance<br>6/30/2005 |
|---|---------------------|----------------------|-------------------|----------------------|
| <b>Governmental Activities</b>                      |                     |                      |                   |                      |
| <i>Capital Assets, not being depreciated:</i>       |                     |                      |                   |                      |
| Land  | \$ 478,147          | \$ -                 | \$ -              | \$ 478,147           |
| Construction-in-progress                            | 2,503,085           | 15,473,689           | -                 | 17,976,774           |
| <i>Total Capital Assets, not being depreciated:</i> | <u>2,981,232</u>    | <u>15,473,689</u>    | <u>-</u>          | <u>18,454,921</u>    |
| <i>Capital Assets, being depreciated:</i>           |                     |                      |                   |                      |
| Buildings and Improvements                          | 6,581,331           | -                    | -                 | 6,581,331            |
| Improvements other than Buildings                   | 13,831              | -                    | -                 | 13,831               |
| Furniture, Equipment and Fixtures                   | 1,474,380           | 14,799               | (79,322)          | 1,409,857            |
| Vehicles  | 1,232,717           | 108,000              | (161,106)         | 1,179,611            |
| <i>Total Capital Assets, being depreciated:</i>     | <u>9,302,259</u>    | <u>122,799</u>       | <u>(240,428)</u>  | <u>9,184,630</u>     |
| Less Accumulated Depreciation:                      |                     |                      |                   |                      |
| Buildings and Improvements                          | (5,089,221)         | (101,804)            | -                 | (5,191,025)          |
| Improvements other than Buildings                   | 39,493              | (1,841)              | -                 | 37,652               |
| Furniture, Equipment and Fixtures                   | (1,250,033)         | (30,327)             | 76,166            | (1,204,194)          |
| Vehicles  | (638,452)           | (100,291)            | 161,106           | (577,637)            |
| <i>Total Accumulated Depreciation</i>               | <u>(6,938,213)</u>  | <u>(234,263)</u>     | <u>237,272</u>    | <u>(6,935,204)</u>   |
| <i>Total Capital Assets being depreciated, net</i>  | <u>2,364,046</u>    | <u>(111,464)</u>     | <u>(3,156)</u>    | <u>2,249,426</u>     |
| Governmental Activities Capital Assets, Net         | <u>\$ 5,345,278</u> | <u>\$ 15,362,225</u> | <u>\$ (3,156)</u> | <u>\$ 20,704,347</u> |

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Depreciation expense was charged to governmental functions as follows:

|   |                   |
|---|-------------------|
| Instruction:                            |                   |
| Regular                                 | \$ 104,795        |
| Vocational                              | 1,239             |
| Support Services:                       |                   |
| Instructional Staff                     | 2,534             |
| Administration                          | 2,017             |
| Fiscal                                  | 342               |
| Business                                | 6,596             |
| Operation and Maintenance of Plant      | 3,354             |
| Pupil Transportation                    | 95,032            |
| Operation of Non-instructional Services | 2,432             |
| Extracurricular Activities              | 15,922            |
|   | <hr/>             |
| Total Depreciation Expense              | <u>\$ 234,263</u> |

***B. Interfund Receivable/Payable***

The interfund receivable/payable consisted of the following at June 30, 2005, as reported on the fund financial statements:

| <u>Fund</u>          | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|----------------------|-----------------------------|--------------------------|
| General              | \$ 65,973                   |                          |
| Title I              |                             | \$ 39,700                |
| Ohio Reads           |                             | 11,057                   |
| Title II             |                             | 6,704                    |
| Reading Intervention |                             | 4,577                    |
| DPIA                 |                             | 2,335                    |
| Autism Grant         |                             | 1,214                    |
| One Net              |                             | 386                      |

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

**Note 9 – Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (11 and 12 month) are eligible for vacation time. The number of days granted is determined upon length of service. For fiscal year 2004, the superintendent and treasurer were granted twenty days of vacation.

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Classified employees earn five to twenty five days of vacation per year, depending upon length of service. Classified employees' accumulated vacation days shall not exceed thirty days. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

| <u>Years Service</u> | <u>Vacation Days</u>           |
|----------------------|--------------------------------|
| 6 months - 1         | 5                              |
| 1-5                  | 10                             |
| 6-10                 | 15                             |
| 11-19                | 20                             |
| 20-25                | 20 plus one day per year to 25 |

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis; certified employees, 295 days and classified employees, 275 days.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement if the employee has been employed by the District for a minimum of ten consecutive years at the time of retirement for certified personnel and a minimum of five consecutive years for classified personnel. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 70 days for certified employees and 70 days for classified employees.

**Note 10 – Defined Benefit Pension Plans**

***A. School Employees Retirement System***

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to



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fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$159,768, \$178,776 and \$192,326; 44.8 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$712,440, \$568,344 and \$676,441 respectively; 77.09 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$10,946 made by the School District and \$10,424 made by plan members.

**Note 11 – Postemployment Benefits**

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

STRS retirees who participated in the DB or combined plans and their dependent are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$48,317 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$47,120 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the

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fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Note 12 – Risk Management**

***A. General Risk***

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

Professional liability insurance is maintained in the amount of \$2,000,000 for single occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$25,665,400 and \$125,000 for equipment breakdown coverage. In addition, the District maintains coverage on musical instruments, computers, band uniforms, audio-visual equipment and electronics.

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

***B. Health Insurance***

The District belongs to the Ohio Mid Eastern Regional Educational Service Agency (OMERSA) to self insure its medical claims. OMERSA currently includes 50 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, Jefferson County Educational Service Center, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent. Settlements have never exceeded insurance coverage.

Self Funded Plans, Inc., a third party administrator, services all health/medical claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$50,000 per employee consortium wide.

***C. Workers' Compensation***

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

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participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' 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 pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to 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 – Notes and Long-Term Debt**

A summary of changes in long-term obligations for the year ended June 30, 2005, are as follows:

|                                 | Principal<br>Outstanding<br>6/30/2004 | Additions | Reductions       | Principal<br>Outstanding<br>6/30/2005 | Amounts<br>Due in<br>One Year |
|---------------------------------|---------------------------------------|-----------|------------------|---------------------------------------|-------------------------------|
| <b>Governmental Activities</b>  |                                       |           |                  |                                       |                               |
| 2002 Serial Obligation Bonds    | \$ 5,820,000                          | \$ -      | \$ (245,000)     | \$ 5,575,000                          | \$ 260,000                    |
| 2002 Term Obligation Bonds      | 1,070,000                             | -         | -                | 1,070,000                             | -                             |
| 2002 Capital Appreciation Bonds | 325,000                               | -         | -                | 325,000                               | -                             |
| Capital Lease Payable           | 960                                   | -         | (960)            | -                                     | -                             |
| Compensated Absences            | 861,057                               | -         | (16,701)         | 844,356                               | 139,633                       |
| Total Governmental Activities   |                                       |           |                  |                                       |                               |
| Long-Term Liabilities           | <u>\$ 8,077,017</u>                   | <u>-</u>  | <u>(262,661)</u> | <u>\$ 7,814,356</u>                   | <u>\$ 399,633</u>             |

**2002 General Obligation Bonds** The District issued School Improvement and Classroom Facilities Bonds on April 4, 2002, in the amount of \$7,774,998 at an average rate of 5.04 percent. The purpose of these bonds which included serial bonds, term bonds and capital appreciation bonds, is to pay the local share of school construction under the State of Ohio Classroom Facilities Assistance Program for constructing, furnishing and equipping a new high school auditorium and for the repayment of bond anticipation notes issued for this project. The bonds were issued at a premium of \$258,919. The final maturity amount of the capital appreciation bonds will be \$325,000. The bonds were issued for a twenty-two year period with a maturity date of December 1, 2024.

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The annual maturities and related interest of the Serial bonds as of June 30, is as follows:

|                        | <u>Principal</u>    | <u>Interest</u>     | <u>Payment</u>      |
|------------------------|---------------------|---------------------|---------------------|
| FY 2006                | \$ 260,000          | 256,045             | \$ 516,045          |
| FY 2007                | 185,000             | 266,148             | 451,148             |
| FY 2008                | 90,000              | 279,700             | 369,700             |
| FY 2009                | 95,000              | 276,090             | 371,090             |
| FY 2010                | 100,000             | 272,090             | 372,090             |
| FY 2011 - 2015         | 1,465,000           | 1,038,653           | 2,503,653           |
| FY 2016 - 2020         | 1,960,000           | 608,332             | 2,568,332           |
| FY 2021 and thereafter | <u>1,420,000</u>    | <u>109,000</u>      | <u>1,529,000</u>    |
| Total                  | <u>\$ 5,575,000</u> | <u>\$ 3,106,058</u> | <u>\$ 8,681,058</u> |

The annual maturities and related interest of the Term bonds as of June 30, is as follows:

|                | <u>Principal</u>    | <u>Interest</u>   | <u>Payment</u>      |
|----------------|---------------------|-------------------|---------------------|
| FY 2006        | \$ -                | \$ 53,500         | \$ 53,500           |
| FY 2007        | -                   | 36,000            | 36,000              |
| FY 2008        | -                   | 17,500            | 17,500              |
| FY 2009        | -                   | 17,500            | 17,500              |
| FY 2010        | -                   | 17,500            | 17,500              |
| FY 2011 - 2015 | -                   | 250,000           | 250,000             |
| FY 2016 - 2020 | -                   | 267,500           | 267,500             |
| FY 2021 - 2025 | <u>1,070,000</u>    | <u>214,750</u>    | <u>1,284,750</u>    |
| Total          | <u>\$ 1,070,000</u> | <u>\$ 874,250</u> | <u>\$ 1,944,250</u> |

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The annual maturities and related interest of the Capital Appreciation bonds as of June 30, is as follows:

|                        | Principal  | Interest   | Payment    |
|------------------------|------------|------------|------------|
| FY 2006                | \$ -       | \$ -       | \$ -       |
| FY 2007                | 48,414     | 41,586     | 90,000     |
| FY 2008                | 92,026     | 102,974    | 195,000    |
| FY 2009                | 80,590     | 114,410    | 195,000    |
| FY 2010                | 72,384     | 127,616    | 200,000    |
| FY 2011 and thereafter | 31,586     | 68,414     | 100,000    |
| Total                  | \$ 325,000 | \$ 455,000 | \$ 780,000 |

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt. The District's unvoted debt limit is \$121,956. The voted debt limit at June 30, 2005 is \$10,975,995.

**Note 14 – Jointly Governed Organizations and Public Entity Risk Pools**

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

***Andover Public Library*** The Andover Public Library (the Library) is a district political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does

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not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on the behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Andover Public Library, Richard Mole, Acting Clerk/Treasurer, at 142 Main Street, Andover, Ohio 44003.

***Ashtabula County Joint Vocational School District*** The District is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a seven member board of education and is funded by levying local millage and state and federal support. The District has no board representation.

***Northeast Ohio Special Education Regional Resources Center (NEO/SERRC)*** NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for the children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate each year. The degree of control exercised by any participating school district is limited to it representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio 44512.

**Note 15 – Contingencies**

***A. Grants***

The District received financial assistance from federal and state 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

***B. Litigation***

The District is not party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2005.

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**Note 16 – Statutory Reserves**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 (h), effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2005, the District has not taken action to eliminate this reserve in accordance with Am. Sub. Senate Bill 345.

The following cash basis information describes the change in the year-end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute. The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. These extra amounts may be used to reduce the set-aside requirements of future years. Negative amounts, however, are not presented as being carried forward to the next fiscal year.

|  | Textbooks      | Maintenance<br>Reserve | Stabilization<br>Reserve | Total          |
|--|----------------|------------------------|--------------------------|----------------|
| Set-aside cash balance as of June 30, 2004               | \$ 21,706      | \$ 25,473              | \$ 148,755               | \$ 195,934     |
| Current year set-aside requirement                       | 198,241        | 198,241                | -                        | 399,586        |
| Offset credit  | -              | (7,655,799)            | -                        | (7,827,042)    |
| Qualifying expenditures                                  | (115,125)      | -                      | -                        | (115,125)      |
| Totals   | \$ 104,822     | \$ (7,432,085)         | \$ 148,755               | \$ (7,346,647) |
| Set-aside cash balance carried forward to FY 2006        | <u>104,822</u> | <u>-</u>               | <u>148,755</u>           |                |
| Amount available to offset future set-aside requirements | <u>\$ -</u>    | <u>\$ (7,432,085)</u>  | <u>\$ -</u>              |                |



**Pymatuning Valley Local School**  
**Ashtabula County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005

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**Note 17 – Changes in Accounting Principals and Restatement of Fund Balance**

*Changes in Accounting Principles* For the fiscal year of 2005, the School District has implemented GASB Statement No. 40, “Deposits and Investment risk Disclosures”; and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers”.

*Restatement of Fund Balances* As a result of the implementation of the Technical Bulletin, certain beginning fund balances were required to be restated. These restatements involve reporting pension and other post employment benefit liabilities on the governmental fund financial statements where beforehand were exclusively reported on the government-wide financial statements.

|                                     | <u>General<br/>Fund</u> | <u>Debt Service<br/>Fund</u> | <u>Building<br/>Fund</u> | <u>Classroom<br/>Facilities<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------|-------------------------|------------------------------|--------------------------|--|---|---|
| Fund Balances at<br>June 30, 2004   | \$ 1,832,380            | \$ 409,264                   | \$ 2,766,813             | \$ 14,532,913                            | \$ 403,104                              | \$ 19,944,474                           |
| GASB Technical<br>Bulletin # 2004-2 | <u>(41,915)</u>         | <u>-</u>                     | <u>-</u>                 | <u>-</u>                                 | <u>-</u>                                | <u>(41,915)</u>                         |
| Fund Balances at<br>July 1, 2004    | <u>\$ 1,790,465</u>     | <u>\$ 409,264</u>            | <u>\$ 2,766,813</u>      | <u>\$ 14,532,913</u>                     | <u>\$ 403,104</u>                       | <u>\$ 19,902,559</u>                    |

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**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY  
FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/<br>Pass Through Grantor<br>Program Title   | Pass Through<br>Entity<br>Number | Federal<br>CFDA<br>Number | Receipts           | Non-Cash<br>Receipts | Expenditures       | Non-Cash<br>Expenditures |
|---|----------------------------------|---------------------------|--------------------|----------------------|--------------------|--------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                                  |                           |                    |                      |                    |                          |
| <i>Passed Through The Ohio Department of Education:</i>   |                                  |                           |                    |                      |                    |                          |
| <i>Nutrition Cluster:</i>   |                                  |                           |                    |                      |                    |                          |
| Food Distribution Program   | N/A                              | 10.550                    | -                  | \$17,126             | -                  | \$17,126                 |
| School Breakfast Program  | 05-PU-2004<br>05-PU-2005         | 10.553                    | \$13,240<br>50,937 | -<br>-               | \$13,240<br>50,937 | -<br>-                   |
| <b>Subtotal -- School Breakfast Program</b>   |                                  |                           | <b>64,177</b>      | -                    | <b>64,177</b>      | -                        |
| National School Lunch Program   | LL-P4 2004<br>LL-P4 2005         | 10.555                    | 44,767<br>157,411  | -<br>-               | 44,767<br>157,411  | -<br>-                   |
| <b>Subtotal -- School National School Lunch Program</b>   |                                  |                           | <b>202,178</b>     | -                    | <b>202,178</b>     | -                        |
| <b>Total U.S. Department of Agriculture – Nutrition Cluster</b>                                     |                                  |                           | <b>266,355</b>     | <b>17,126</b>        | <b>266,355</b>     | <b>17,126</b>            |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>   |                                  |                           |                    |                      |                    |                          |
| <i>Passed Through The Ohio Department of Mental Retardation<br/>and Developmental Disabilities:</i> |                                  |                           |                    |                      |                    |                          |
| <i>Medicaid Cluster:</i>  |                                  |                           |                    |                      |                    |                          |
| Medical Assistance Program  | FY 2004                          | 93.778                    | 39,832             | -                    | 39,832             | -                        |
| State Children's Insurance Program (SCHIP)  | FY 2004                          | 93.767                    | 2,184              | -                    | 2,184              | -                        |
| <b>Total -- U.S. Department of Health and Human Services</b>  |                                  |                           | <b>42,016</b>      | -                    | <b>42,016</b>      | -                        |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                                  |                           |                    |                      |                    |                          |
| <i>Passed Through The Ohio Department of Education:</i>   |                                  |                           |                    |                      |                    |                          |
| <i>Grants to Local Educational Agencies</i>   |                                  |                           |                    |                      |                    |                          |
| Title I School Subsidy  | C1-S1-2004<br>C1-S1-2005         | 84.010                    | 20,651<br>205,443  | -<br>-               | 2,983<br>245,143   | -<br>-                   |
| <b>Total – Title I School Subsidy</b>   |                                  |                           | <b>226,094</b>     | -                    | <b>248,126</b>     | -                        |
| Drug Free Education – Subsidy   | DR-S1-2003<br>DR-S1-2004         | 84.186                    | -<br>8,114         | -<br>-               | 337<br>9,452       | -<br>-                   |
| <b>Total -- Drug Free Education – Subsidy</b>   |                                  |                           | <b>8,114</b>       | -                    | <b>9,789</b>       | -                        |
| Title V -- Innovative Education Program Strategies  | C2-S1-2004<br>C2-S1-2005         | 84.298                    | 266<br>3,692       | -<br>-               | 266<br>6,027       | -<br>-                   |
| <b>Total -- Innovative Education Program Strategies</b>   |                                  |                           | <b>3,958</b>       | -                    | <b>6,293</b>       | -                        |
| Technology Literacy Challenge Fund Grants   | TJ-S1-2004<br>TJ-S1-2005         | 84.318                    | (101)<br>810       | -<br>-               | 1,235<br>8,049     | -<br>-                   |
| <b>Total -- Technology Literacy Grants</b>  |                                  |                           | <b>709</b>         | -                    | <b>9,284</b>       | -                        |
| Title II-A Improving Teacher Quality State Grants   | TR-S1-2004<br>TR-S1-2005         | 84.367                    | 6,062<br>32,667    | -<br>-               | 12,137<br>47,063   | -<br>-                   |
| <b>Total -- Title II-A</b>  |                                  |                           | <b>38,729</b>      | -                    | <b>59,200</b>      | -                        |
| <b>Total – U.S. Department of Education</b>   |                                  |                           | <b>277,604</b>     | -                    | <b>332,692</b>     | -                        |
| <b>U.S. Office of Library Services</b>  |                                  |                           |                    |                      |                    |                          |
| <i>Passed Through The Ohio Library Board:</i>   |                                  |                           |                    |                      |                    |                          |
| Library Services and Technology Act   | -                                | 45.310                    | 23,910             | -                    | -                  | -                        |
| <b>Totals</b>   |                                  |                           | <b>\$609,885</b>   | <b>\$17,126</b>      | <b>\$641,063</b>   | <b>\$17,126</b>          |

**PYMAYUNING VALLEY LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule is a summary of activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B- FOOD DISTRIBUTION**

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

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

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



## **Auditor of State Betty Montgomery**

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

Pymatuning Valley Local School District  
Ashtabula County  
5571 Route 6 West  
Andover, Ohio 44003

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pymatuning Valley Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 8, 2006 wherein we noted the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 8, 2006 we reported one matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion.

The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 8, 2006, we reported other matters related to noncompliance we deemed immaterial.

Pymatuning Valley Local School District  
Ashtabula County  
Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

June 8, 2006



## Auditor of State Betty Montgomery

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

Pymatuning Valley Local School District  
Ashtabula County  
5571 Route 6 West  
Andover, Ohio 44003

To the Board of Education:

#### Compliance

We have audited the compliance of Pymatuning Valley Local School District, Ashtabula County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Pymatuning Valley Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005

#### Internal Control Over Compliance

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

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

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



**Betty Montgomery**  
Auditor of State

June 8, 2006



**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY  
JUNE 30, 2005**

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

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

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

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

|                |      |
|----------------|------|
| Finding Number | None |
|----------------|------|

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

|                |      |
|----------------|------|
| Finding Number | None |
|----------------|------|





**Auditor of State  
Betty Montgomery**

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**PYMATUNING VALLEY LOCAL SCHOOL DISTRICT**

**ASHTABULA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 30, 2006**