

LOWELLVILLE LOCAL SCHOOL DISTRICT

MAHONING COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

TONY MEDIATE, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lowellville Local School District, Mahoning County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 8, 2008

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

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds	20
Notes to the Basic Financial Statements 2007 and 2006	21 - 47
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	48 - 49
Schedule of Findings and Responses	50 - 52
Status of Prior Audit Findings	53



Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lowellville Local School District, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Lowellville Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lowellville Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lowellville Local School District, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007 on our consideration of the Lowellville Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Lowellville Local School District

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

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

Julian & Grube, Inc.
December 5, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Lowellville Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$113,279 which represents a 0.77% increase from 2006.
- General revenues accounted for \$3,660,945 in revenue or 64.13% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,047,333 or 35.87% of total revenues of \$5,708,278.
- The District had \$5,594,999 in expenses related to governmental activities; \$2,047,333 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$3,660,945 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and capital projects fund. The general fund had \$4,749,538 in revenues and \$4,497,534 in expenditures and other financing uses. During fiscal year 2007 the general fund's fund balance increased \$252,004 from \$1,058,226 to \$1,310,230.
- The District's capital projects fund had \$88,433 in revenues and other financing sources and no expenditures. During fiscal year 2007, the capital projects fund's fund balance increased \$88,433 from \$177,548 to \$265,981.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-47 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 4,230,248	\$ 3,609,318
Capital assets, net	<u>14,448,235</u>	<u>14,937,525</u>
Total assets	<u>18,678,483</u>	<u>18,546,843</u>
<u>Liabilities</u>		
Current liabilities	1,786,675	1,662,127
Long-term liabilities	<u>2,110,558</u>	<u>2,216,745</u>
Total liabilities	<u>3,897,233</u>	<u>3,878,872</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,576,414	12,906,269
Restricted	1,143,158	827,543
Unrestricted	<u>1,061,678</u>	<u>934,159</u>
Total net assets	<u>\$ 14,781,250</u>	<u>\$ 14,667,971</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$14,781,250. Of this total, \$1,143,158 is restricted in use.

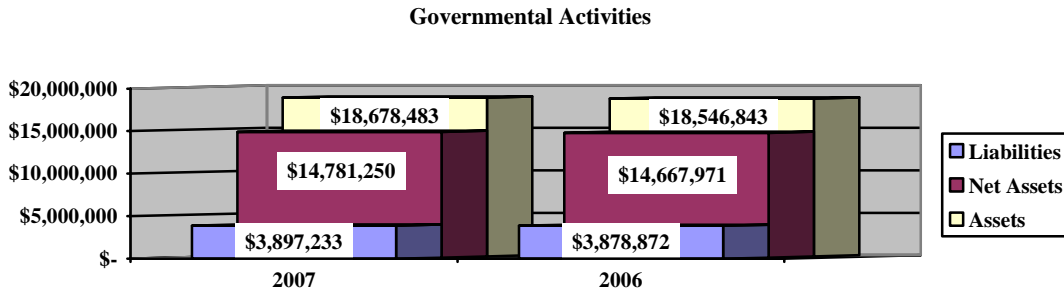
At year-end, capital assets represented 77.35% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$12,576,414. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,143,158, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,061,678 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below show the District's governmental activities assets, liabilities and net assets for the fiscal years ended June 30, 2007 and June 30, 2006.



The table below shows the change in net assets for fiscal years 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,422,821	\$ 1,348,496
Operating grants and contributions	520,515	353,782
Capital grants and contributions	103,997	6,400
General revenues:		
Property taxes	1,155,202	849,828
Grants and entitlements	2,358,653	2,230,389
Investment earnings	123,285	69,832
Other	23,805	87,735
Total revenues	<u>5,708,278</u>	<u>4,946,462</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,475,887	\$ 2,544,903
Special	506,424	343,104
Vocational	37,693	-
Other	22,037	14,071
Support services:		
Pupil	204,198	127,065
Instructional staff	275,730	169,335
Board of education	14,557	27,056
Administration	385,789	415,012
Fiscal	138,885	162,280
Operations and maintenance	488,222	521,710
Pupil transportation	161,651	150,384
Central	63,449	24,957
Food service operations	337,819	343,517
Operations of non-instructional services	9,291	3,979
Extracurricular activities	381,738	403,142
Interest and fiscal charges	91,629	111,429
Total expenses	<u>5,594,999</u>	<u>5,361,944</u>
Change in net assets	113,279	(415,482)
Net assets at beginning of year	<u>14,667,971</u>	<u>15,083,453</u>
Net assets at end of year	<u><u>\$ 14,781,250</u></u>	<u><u>\$ 14,667,971</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$113,279. Total governmental expenses of \$5,594,999 were offset by program revenues of \$2,047,333 and general revenues of \$3,660,945. Program revenues supported 36.59% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 61.56% of total governmental revenue.

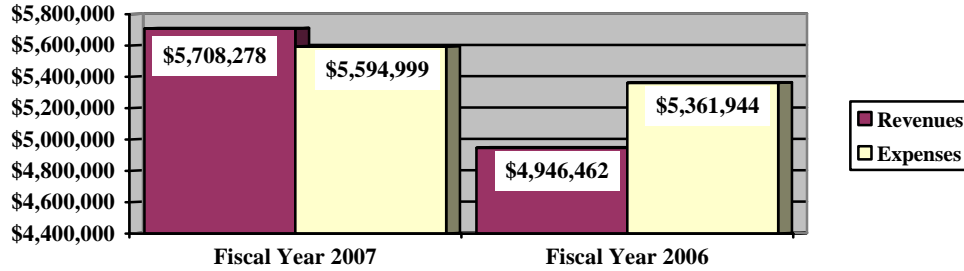
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,042,041 or 54.37% of total governmental expenses for fiscal 2007.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 2,475,887	\$ 1,218,801	\$ 2,544,903	\$ 1,416,383
Special	506,424	286,765	343,104	173,391
Vocational	37,693	37,350	-	-
Other	22,037	22,037	14,071	14,071
Support services:				
Pupil	204,198	177,902	127,065	124,279
Instructional staff	275,730	274,832	169,335	167,575
Board of education	14,557	14,557	27,056	27,056
Administration	385,789	368,165	415,012	397,959
Fiscal	138,885	137,098	162,280	159,620
Operations and maintenance	488,222	457,214	521,710	514,516
Pupil transportation	161,651	46,546	150,384	135,331
Central	63,449	27,603	24,957	(9,587)
Food service operations	337,819	99,078	343,517	106,346
Operations of non-instructional services	9,291	9,291	3,979	3,979
Extracurricular activities	381,738	278,798	403,142	317,318
Interest and fiscal charges	91,629	91,629	111,429	105,029
Total expenses	<u>\$ 5,594,999</u>	<u>\$ 3,547,666</u>	<u>\$ 5,361,944</u>	<u>\$ 3,653,266</u>

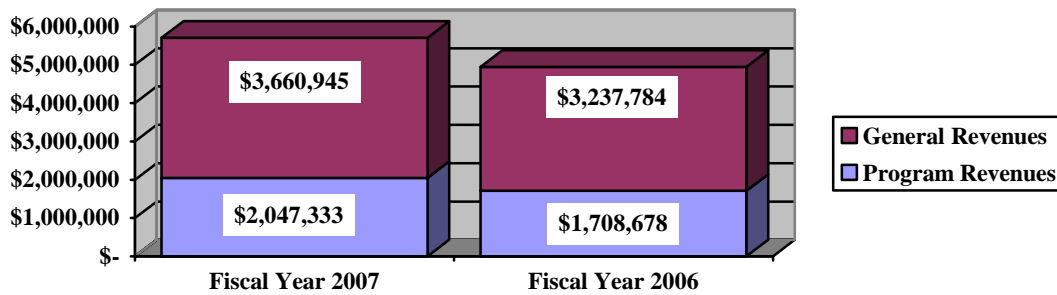
**LOWELLVILLE LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The dependence upon tax and other general revenues for governmental activities is apparent, 51.44% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 63.41%. The District's property tax revenues and Foundation payments received from the State of Ohio are the primary sources of support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,315,935, which is greater than last year's total of \$1,866,649. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 1,310,230	\$ 1,058,226	\$ 252,004	23.81 %
Capital Projects	265,981	177,548	88,433	49.81 %
Other Governmental	<u>739,724</u>	<u>630,875</u>	<u>108,849</u>	17.25 %
Total	<u>\$ 2,315,935</u>	<u>\$ 1,866,649</u>	<u>\$ 449,286</u>	24.07 %

The fund balance of the other governmental funds increased primarily due to an increase of approximately \$44,000 in the food service fund balance as charges for services and intergovernmental grants and subsidies exceeded expenditures in the current year. The educational foundation fund balance increased due to a transfer in of \$30,150 from the general fund and the classroom facilities maintenance fund balance increased approximately \$43,000 due to tax and other revenue sources exceeding expenditures of only \$216 in fiscal year 2007.

An analysis of the general fund and capital projects fund is provided below.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

General Fund

The District's general fund balance increased \$252,004. The increase in fund balance can be attributed to increasing revenues still being more than increased expenditures. Revenues exceed expenditures for fiscal year 2007 by \$441,526.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 959,721	\$ 950,129	\$ 9,592	1.01 %
Tuition	1,173,263	1,104,687	68,576	6.21 %
Earnings on investments	94,852	57,805	37,047	64.09 %
Intergovernmental	2,499,855	2,217,383	282,472	12.74 %
Other revenues	<u>21,847</u>	<u>10,547</u>	<u>11,300</u>	107.14 %
Total	<u>\$ 4,749,538</u>	<u>\$ 4,340,551</u>	<u>\$ 408,987</u>	9.42 %
<u>Expenditures</u>				
Instruction	\$ 2,483,280	\$ 2,341,002	\$ 142,278	6.08 %
Support services	1,620,498	1,403,609	216,889	15.45 %
Non-instructional services	1,051	13,855	(12,804)	(92.41) %
Extracurricular activities	159,292	174,343	(15,051)	(8.63) %
Debt service	<u>43,891</u>	<u>41,998</u>	<u>1,893</u>	4.51 %
Total	<u>\$ 4,308,012</u>	<u>\$ 3,974,807</u>	<u>\$ 333,205</u>	8.38 %

As can be seen in the above table, revenues generated are sufficient to cover expenditures in the general fund. The increase in tuition revenue in the general fund was primarily due to an increase in open enrollment revenues over the prior year. Earnings on investments increased due to higher interest rates on short-term investments that the District utilized. Intergovernmental revenues increased due to an increase in State Foundation monies received from the State of Ohio. The increase in instructional expenditures can be attributed to normal and customary wages and benefit increases. Support services expenditures increased due primarily to pupil transportation expenditures for the purchase of new vehicles coupled with normal and customary wages and benefit increases.

General Fund Budgeting Highlights

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

For the general fund, original budgeted revenues and other financing sources were \$4,558,315 and final budgeted revenues and other financing sources were \$5,037,345. Actual revenues and other financing sources for fiscal 2007 were \$4,738,749. This was \$298,596 less than the final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,270,310 were not amended during the year and equal the final budget appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$4,772,557, which was \$497,753 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Capital Projects Fund

The District's capital projects fund had \$88,433 in revenues and other financing sources and no expenditures. During fiscal year 2007, the capital projects fund's fund balance increased \$88,433 from \$177,548 to \$265,981. The capital projects fund received a \$60,000 transfer in from the general fund during fiscal year 2007 and had interest earnings of \$28,433.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$14,448,235 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 590,631	\$ 590,631
Land improvements	712,351	784,094
Building and improvements	12,008,230	12,379,981
Furniture and equipment	989,768	1,134,103
Vehicles	147,255	48,716
Total	\$ 14,448,235	\$ 14,937,525

The overall decrease in capital assets of \$489,290 is due to depreciation expense of \$728,315 exceeding capital outlays of \$239,025 in the fiscal year.

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

Debt Administration

At June 30, 2007, the District had \$1,860,000 in general obligation bonds outstanding. Of this total, \$60,000 is due within one year and \$1,800,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 1,860,000	\$ 1,920,000
Total	\$ 1,860,000	\$ 1,920,000

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

The District is and has been financially strong for a long period of time, extending back to 1985 when the last operating levy was approved by the voters. Since that time, only the 5.1 mill bond issue for the new K-12 School has been on the ballot and that was approved by 70 % of the voters. Contributing to the financial soundness of the District is open enrollment, which has been in effect since 1994. The open enrollment program has been well managed from an educational and a financial viewpoint. The District has received an Excellent Rating for the last six years and has been one of the lowest cost per pupil school districts in Ohio during that period of time. For the latest school year reported, 2006-2007, the District ranks as the second lowest cost per pupil in Ohio.

Although property taxes have remained flat for an extended period of time, the combination of State Funding (75 % of revenue), open enrollment, and cost containment have allowed us to remain financially sound. Unrestricted State funding decreased in the last fiscal year compared to the previous fiscal year. As a result, unrestricted State funding shows an increase of 7.7 % per year from Fiscal 2000 to Fiscal 2007 which is a significant decrease compared to the increase in State funding from Fiscal 1999 to Fiscal 2006. Continued increases in open enrollment funding and continued cost containment policies have allowed the District to remain financially sound.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,859,614
Investments	1,289
Receivables:	
Taxes	1,318,787
Accounts	1,562
Intergovernmental	21,158
Materials and supplies inventory	5,745
Unamortized bond issue costs	22,093
Capital assets:	
Land	590,631
Depreciable capital assets, net	13,857,604
Capital assets, net.	<u>14,448,235</u>
 Total assets.	 <u>18,678,483</u>
Liabilities:	
Accounts payable.	4,037
Accrued wages and benefits	449,984
Pension obligation payable.	99,793
Intergovernmental payable	29,771
Accrued interest payable	8,115
Unearned revenue.	1,194,975
Long-term liabilities:	
Due within one year.	86,089
Due in more than one year	2,024,469
Total liabilities	<u>3,897,233</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,576,414
Restricted for:	
Capital projects	287,790
Debt service.	103,112
Classroom facilities maintenance	281,722
State funded programs	2,804
Student activities	8,850
Other purposes	458,880
Unrestricted	<u>1,061,678</u>
Total net assets	<u>\$ 14,781,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 2,475,887	\$ 1,173,263	\$ 83,823	\$ -	\$ (1,218,801)
Special	506,424	-	219,659	-	(286,765)
Vocational	37,693	-	343	-	(37,350)
Other	22,037	-	-	-	(22,037)
Support services:					
Pupil	204,198	-	26,296	-	(177,902)
Instructional staff	275,730	-	898	-	(274,832)
Board of education	14,557	-	-	-	(14,557)
Administration	385,789	12,624	5,000	-	(368,165)
Fiscal	138,885	-	1,787	-	(137,098)
Operations and maintenance	488,222	1,200	29,808	-	(457,214)
Pupil transportation	161,651	-	11,108	103,997	(46,546)
Central	63,449	-	35,846	-	(27,603)
Operation of non-instructional services:					
Food service operations	337,819	147,118	91,623	-	(99,078)
Other non-instructional services	9,291	-	-	-	(9,291)
Extracurricular activities	381,738	88,616	14,324	-	(278,798)
Interest and fiscal charges	91,629	-	-	-	(91,629)
Total governmental activities	<u>\$ 5,594,999</u>	<u>\$ 1,422,821</u>	<u>\$ 520,515</u>	<u>\$ 103,997</u>	<u>(3,547,666)</u>

General Revenues:

Property taxes levied for:	
General purposes	984,095
Special revenue	13,402
Debt service	157,705
Grants and entitlements not restricted to specific programs	
Investment earnings	123,285
Miscellaneous	23,805
Total general revenues	<u>3,660,945</u>
Change in net assets	113,279
Net assets at beginning of year	<u>14,667,971</u>
Net assets at end of year	<u>\$ 14,781,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,071,969	\$ 765,981	\$ 786,102	\$ 2,624,052
Investments	-	-	1,289	1,289
Receivables:				
Taxes	1,113,672	-	205,115	1,318,787
Accounts	1,562	-	-	1,562
Intergovernmental	-	-	21,158	21,158
Interfund loans	260,000	-	-	260,000
Loans to other funds	256,957	-	-	256,957
Due from other funds	12,580	-	-	12,580
Materials and supplies inventory	-	-	5,745	5,745
Restricted assets:				
Equity in pooled cash and cash equivalents	235,562	-	-	235,562
Total assets	<u>\$ 2,952,302</u>	<u>\$ 765,981</u>	<u>\$ 1,019,409</u>	<u>\$ 4,737,692</u>
Liabilities:				
Accounts payable	\$ 3,169	\$ -	\$ 868	\$ 4,037
Accrued wages and benefits	416,118	-	33,866	449,984
Pension obligation payable	91,434	-	8,359	99,793
Intergovernmental payable	26,906	-	2,865	29,771
Interfund loans payable	-	250,000	10,000	260,000
Loans from other funds	-	250,000	6,957	256,957
Due to other funds	-	-	12,580	12,580
Deferred revenue	99,485	-	14,175	113,660
Unearned revenue	1,004,960	-	190,015	1,194,975
Total liabilities	<u>1,642,072</u>	<u>500,000</u>	<u>279,685</u>	<u>2,421,757</u>
Fund Balances:				
Reserved for encumbrances	46,434	-	17,711	64,145
Reserved for materials and supplies inventory	-	-	5,745	5,745
Reserved for loans to other funds	256,957	-	-	256,957
Reserved for school bus purchases	121,487	-	-	121,487
Reserved for textbooks	114,075	-	-	114,075
Reserved for debt service	-	-	98,209	98,209
Unreserved, undesignated, reported in:				
General fund	771,277	-	-	771,277
Special revenue funds	-	-	596,250	596,250
Capital projects funds	-	265,981	21,809	287,790
Total fund balances	<u>1,310,230</u>	<u>265,981</u>	<u>739,724</u>	<u>2,315,935</u>
Total liabilities and fund balances	<u>\$ 2,952,302</u>	<u>\$ 765,981</u>	<u>\$ 1,019,409</u>	<u>\$ 4,737,692</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	2,315,935
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			14,448,235
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.			113,660
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,115)
Unamortized bond issuance costs are not recognized in the funds.			22,093
Unamortized deferred charges on refundings are not recognized in the funds.			65,751
Unamortized premiums on bond issuance are not recognized in the funds.			(96,724)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	\$	216,644	
Capital lease obligation		2,941	
General obligation bonds payable		<u>1,860,000</u>	
Total			<u>(2,079,585)</u>
Net assets of governmental activities		\$	<u><u>14,781,250</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 959,721	\$ -	\$ 170,875	\$ 1,130,596
Tuition.	1,173,263	-	-	1,173,263
Earnings on investments.	94,852	28,433	23,416	146,701
Charges for services.	-	-	147,118	147,118
Extracurricular.	-	-	93,525	93,525
Other local revenues.	21,847	-	43,927	65,774
Intergovernmental - State.	2,499,855	-	92,878	2,592,733
Intergovernmental - Federal	-	-	333,962	333,962
Total revenue	<u>4,749,538</u>	<u>28,433</u>	<u>905,701</u>	<u>5,683,672</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,202,855	-	30,139	2,232,994
Special.	220,695	-	250,053	470,748
Vocational.	37,693	-	-	37,693
Other.	22,037	-	-	22,037
Support services:				
Pupil.	180,629	-	15,463	196,092
Instructional staff	251,193	-	746	251,939
Board of education	14,557	-	-	14,557
Administration.	307,523	-	35,261	342,784
Fiscal	127,084	-	4,898	131,982
Operations and maintenance.	466,306	-	28,108	494,414
Pupil transportation	245,603	-	14,458	260,061
Central.	27,603	-	35,846	63,449
Operation of non-instructional services:				
Food service operations	-	-	187,198	187,198
Other non-instructional services.	1,051	-	12,398	13,449
Extracurricular activities.	159,292	-	104,051	263,343
Facilities acquisition and construction	-	-	185	185
Debt service:				
Principal retirement	42,335	-	120,980	163,315
Interest and fiscal charges	1,556	-	90,949	92,505
Bond issuance costs	-	-	23,288	23,288
Total expenditures	<u>4,308,012</u>	<u>-</u>	<u>954,021</u>	<u>5,262,033</u>
Excess of revenues over (under) expenditures	<u>441,526</u>	<u>28,433</u>	<u>(48,320)</u>	<u>421,639</u>
Other financing sources (uses):				
Transfers in	-	60,000	129,522	189,522
Transfers (out).	(189,522)	-	-	(189,522)
Premium on issuance of bonds	-	-	101,952	101,952
Issuance of refunding bonds	-	-	955,000	955,000
Payment to refunded bond escrow agent	-	-	(1,029,305)	(1,029,305)
Total other financing sources (uses)	<u>(189,522)</u>	<u>60,000</u>	<u>157,169</u>	<u>27,647</u>
Net change in fund balances	252,004	88,433	108,849	449,286
Fund balances at beginning of year.	<u>1,058,226</u>	<u>177,548</u>	<u>630,875</u>	<u>1,866,649</u>
Fund balances at end of year	<u>\$ 1,310,230</u>	<u>\$ 265,981</u>	<u>\$ 739,724</u>	<u>\$ 2,315,935</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	449,286
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays the current period.		
Capital outlays	\$ 239,025	
Depreciation expense	(728,315)	
Total		(489,290)
Revenues in the statement of activities that provide current financial resources are not reported as revenues in the funds.		24,606
Repayment of bond and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		163,315
The issuance of refunding bonds are recorded as an other financing source in the governmental funds funds; however, the proceeds increase long-term liabilities on the statement net assets.		(955,000)
Premiums on debt issuances are recognized as an other financing source in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(101,952)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amorized over the life of the issuance in the statement of activities.		23,288
Payments to refunded bond escrow agents for the retirement of bonds are an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transaction occurred in the fiscal year:		
Bonds refunded	960,000	
Deferred charges on refundings	69,305	
Total		1,029,305
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following items resulted in less interest being reported in the statement of activities:		
Decrease in accrued interest payable	397	
Amortization of bond issuance costs	(1,195)	
Amortization on bond premiums	5,228	
Amortization of deferred charge on refunding	(3,554)	
Total		876
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(31,155)
Change in net assets of governmental activities	\$	113,279

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,019,423	\$ 1,030,479	\$ 950,494	\$ (79,985)
Tuition.	1,096,032	1,240,969	1,173,263	(67,706)
Earnings on investments.	88,609	100,326	94,852	(5,474)
Other local revenues	18,189	20,594	19,470	(1,124)
Intergovernmental - State	2,335,301	2,644,115	2,499,855	(144,260)
Total revenue	<u>4,557,554</u>	<u>5,036,483</u>	<u>4,737,934</u>	<u>(298,549)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,416,520	2,416,520	2,188,293	228,227
Special.	236,549	236,549	214,208	22,341
Vocational.	38,126	38,126	34,525	3,601
Other.	27,188	27,188	24,620	2,568
Support services:				
Pupil.	200,009	200,009	181,119	18,890
Instructional staff	276,182	276,182	250,098	26,084
Board of education	21,441	21,441	19,416	2,025
Administration.	335,041	335,041	303,398	31,643
Fiscal	140,211	140,211	126,969	13,242
Operations and maintenance.	558,055	558,055	505,350	52,705
Pupil transportation	269,361	269,361	243,921	25,440
Central.	72,364	72,364	65,530	6,834
Operation of non-instructional services	6,991	6,991	6,331	660
Extracurricular activities.	175,867	175,867	159,257	16,610
Total expenditures	<u>4,773,905</u>	<u>4,773,905</u>	<u>4,323,035</u>	<u>450,870</u>
Excess of revenues over (under) expenditures.	<u>(216,351)</u>	<u>262,578</u>	<u>414,899</u>	<u>152,321</u>
Other financing sources (uses):				
Transfers (out)	(209,288)	(209,288)	(189,522)	19,766
Advances (out)	(287,117)	(287,117)	(260,000)	27,117
Refund of prior year expenditure.	761	862	815	(47)
Total other financing sources (uses)	<u>(495,644)</u>	<u>(495,543)</u>	<u>(448,707)</u>	<u>46,836</u>
Net change in fund balance	(711,995)	(232,965)	(33,808)	199,157
Fund balance at beginning of year.	1,182,467	1,182,467	1,182,467	-
Prior year encumbrances appropriated	121,772	121,772	121,772	-
Fund balance at end of year	<u>\$ 592,244</u>	<u>\$ 1,071,274</u>	<u>\$ 1,270,431</u>	<u>\$ 199,157</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 55,736
Total assets.	<u>\$ 55,736</u>
Liabilities:	
Due to students	\$ 55,736
Total liabilities	<u>\$ 55,736</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lowellville Local School District (the “District”) was established in 1920 through the consolidation of existing land areas and school districts. The District is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state and/or federal agencies.

The District serves an area of approximately 14 square miles. It is located in Mahoning County, and includes the Village of Lowellville. The District is the 581st largest in the State of Ohio (among the 876 public and community school districts in the state) in terms of enrollment. It is staffed by 41 certificated employees and 18 non-certificated full-time teaching personnel who provide services to 640 students and other community members. The District currently operates 2 instructional buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS, a Council of Governments (the "COG"), is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports the COG based upon a per pupil charge. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding. Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

Mahoning County Career & Technical Center

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

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Mahoning County School Employees Insurance Consortium

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Capital Projects Fund - The Capital Projects fund is used to accumulate monies for capital projects.

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate of Estimated Resources issued for fiscal year 2007.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts, including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to common stock. While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its other governmental funds. No public funds were used to acquire the stock. Investments in common stock are reported at fair value, which is based on quoted market prices. At June 30, 2007, the common stock had a fair market value of \$1,289.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$94,852, which includes \$22,819 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

I. Interfund Balances

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

Receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

Receivables and payables resulting from negative cash balances in certain funds are classified as “due from/to other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with 20 years of current service with the District, all employees age 45 with at least 15 years of service, and all employees age 50 with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represent monies restricted by State statute for textbooks/instructional materials and school bus purchases along with monies restricted for the District's educational foundation and termination benefits.

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

N. Estimates

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve for textbooks. This reserve is required by State statute. In addition, the District has received monies restricted for school bus purchases. A schedule of statutory reserves is presented in Note 17.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

P. Interfund Activity

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

Q. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refunds resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.D.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Management Information System	\$ 2,696
Ohio Reads	25
Poverty Aid	10,789
IDEA Part B Grant	10,831
Title I Disadvantaged Children	9,430
Improving Teacher Quality	3,849

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. Except for the IDEA Part B Grant fund, all deficit fund balances resulted from adjustments for accrued liabilities. The deficit fund balance in the IDEA Part B Grant fund resulted from a negative cash balance at fiscal year end. A “due to/from other funds” was recorded to cover the negative cash balance (See Note 5.D).

B. Noncompliance Citations

- i. The District had expenditures in excess of appropriations at June 30, 2007 in noncompliance with Ohio Revised Code Section 5705.41(B).
- ii. The District had expenditures exceed appropriations during the fiscal year ended June 30, 2007 in noncompliance with Ohio Revised Code Section 5705.40.
- iii. The District had appropriations in excess of estimated resources at June 30, 2007 in noncompliance with Ohio Revised Code Section 5705.39.
- iv. The District had appropriations in excess of estimated resources during the fiscal year ended June 30, 2007 in noncompliance with Ohio Revised Code Section 5705.36.

NOTE 4 - DEPOSITS 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 Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$2,915,350. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$200,000 of the District's bank balance of \$2,950,888 was covered by the Federal Deposit Insurance Corporation, while \$2,750,888 was exposed to custodial risk as discussed below.

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

B. Investments

At June 30, 2007, the District had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u> <u>6 months or less</u>
Common stock	\$ 1,289	\$ 1,289

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

Credit Risk: The District's common stock holdings were rated from AAA to B by Standard & Poor's, Aaa to Caa1 by Moody's Investors Service, and AA- to B by Fitch Ratings. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District's investment policy does not place any limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Common stock	\$ 1,289	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$ 2,915,350
Investments	<u>1,289</u>
Total	<u>\$ 2,916,639</u>

Cash and Investments per Statement of Net Assets

Governmental activities	\$ 2,860,903
Agency funds	<u>55,736</u>
Total	<u>\$ 2,916,639</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the fiscal year ended June 30, 2007 consisted of the following, as reported in the fund financial statements:

<u>Transfers from General fund to:</u>	<u>Amount</u>
Capital Projects fund	\$ 60,000
Nonmajor Governmental funds	<u>129,522</u>
Total	<u>\$ 189,522</u>

Transfers are used to (1) 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 (2) to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund loans receivable and payable for the fiscal year ended June 30, 2007 consisted of the following, as reported in the fund financial statements:

<u>Interfund loans from General fund to:</u>	<u>Amount</u>
Capital Projects fund	\$ 250,000
Nonmajor Governmental funds	<u>10,000</u>
Total	<u>\$ 260,000</u>

The primary purpose of interfund loans receivable and payable is to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid once the anticipated revenues are received. Interfund loans are short-term loans and are expected to be repaid within one year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund loans between governmental funds are eliminated on the government-wide financial statements.

- C. Loans to and from other funds for the fiscal year ended June 30, 2007 consisted of the following, as reported in the fund financial statements:

<u>Loans from General fund to:</u>	<u>Amount</u>
Capital Projects fund	\$ 250,000
Nonmajor Governmental funds	<u>6,957</u>
Total	<u>\$ 256,957</u>

Loans to and from other funds are long-term loans and are not expected to be repaid within one year.

Loans between governmental funds are eliminated on the government-wide financial statements.

- D. Due from and to other funds for the fiscal year ended June 30, 2007 consisted of the following, as reported in the fund financial statements:

<u>Due to General fund from:</u>	<u>Amount</u>
Nonmajor Governmental funds	<u>\$ 12,580</u>

Due from and to other funds are short-term interfund balances and are expected to be repaid within one year. The amount above was required to cover a negative cash balance in the IDEA Part B Grant fund (a nonmajor governmental fund) at fiscal year-end.

Due from and to other funds between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Mahoning County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Residential/agricultural and public utilities real property	\$ 24,714,330	72.21	\$ 25,381,420	73.79
Commercial/industrial real property	2,527,740	7.38	2,527,740	7.35
Public utilities personal property	5,777,650	16.88	5,670,520	16.49
General tangible personal property	<u>1,208,918</u>	<u>3.53</u>	<u>814,363</u>	<u>2.37</u>
Total assessed valuation	<u>\$ 34,228,638</u>	<u>100.00</u>	<u>\$ 34,394,043</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
General operations	\$ 58.50		\$ 56.40	
Bonded debt	5.10		5.10	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

A summary of the items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes	\$ 1,318,787
Accounts	1,562
Intergovernmental	<u>21,158</u>
Total	<u>\$ 1,341,507</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 590,631	\$ -	\$ -	\$ 590,631
<i>Total capital assets, not being depreciated</i>	<u>590,631</u>	<u>-</u>	<u>-</u>	<u>590,631</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,229,754	4,158	-	1,233,912
Buildings and improvements	14,138,881	-	-	14,138,881
Equipment and furniture	2,180,059	116,973	-	2,297,032
Vehicles	213,624	117,894	-	331,518
<i>Total capital assets, being depreciated</i>	<u>17,762,318</u>	<u>239,025</u>	<u>-</u>	<u>18,001,343</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(445,660)	(75,901)	-	(521,561)
Buildings and improvements	(1,758,900)	(371,751)	-	(2,130,651)
Equipment and furniture	(1,045,956)	(261,308)	-	(1,307,264)
Vehicles	(164,908)	(19,355)	-	(184,263)
<i>Total accumulated depreciation</i>	<u>(3,415,424)</u>	<u>(728,315)</u>	<u>-</u>	<u>(4,143,739)</u>
Total capital assets, net	<u>\$ 14,937,525</u>	<u>\$ (489,290)</u>	<u>\$ -</u>	<u>\$ 14,448,235</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 315,489
Special	39,701
<u>Support Services:</u>	
Pupil	7,798
Instructional staff	23,396
Administration	35,448
Fiscal	3,546
Operations and maintenance	7,798
Pupil transportation	19,355
Extracurricular activities	118,395
Food service operations	<u>157,389</u>
Total depreciation expense	<u>\$ 728,315</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, the District entered into capitalized leases with Sky Bank Leasing for the acquisition and construction of a track and fencing for the athletic field and with Dollar Leasing Corp. for the acquisition of copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment and land improvements have been capitalized in the amount of \$451,083. This amount represents the present value of the minimum lease payments at the time of acquisition. At June 30, 2007, accumulated depreciation on these capital assets was \$157,879, and the current net book value was \$293,204. The corresponding liabilities were recorded as general long-term obligations of the District. During fiscal year 2007, principal payments of \$42,335 were made from the general fund and \$65,980 from the Permanent Improvement fund (a nonmajor governmental fund).

The following is a schedule of the future long-term minimum lease payments required under the capital lease agreements and the present value of the minimum lease payments as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	<u>\$ 2,982</u>
Total minimum lease payments	2,982
Less: amount representing interest	<u>(41)</u>
Total	<u>\$ 2,941</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** During fiscal year 2001, the District issued \$2,126,000 in general obligation bonds (Series 2001 Bonds) with stated interest rates from 4.4% to 6.15% in order to provide funds for the construction of a new building for the elementary, middle and high school. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for as long-term obligations of the District. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund (a nonmajor governmental fund). The source of payment is derived from a current 5.1 mill bonded debt tax levy.

During fiscal year 2007, the District made a \$55,000 principal payment from the debt service fund (a nonmajor governmental fund) and advance refunded \$955,000 (the callable portion) of the Series 2001 current interest bonds.

Interest payments on the remaining Series 2001 general obligation bonds are due on December 1 of each year. The final maturity stated on the remaining in the issue is December 1, 2016.

In conjunction with the 5.1 mills which support the bond issue, the District also passed in fiscal 2001 a 0.5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the Classroom Facilities Maintenance fund (a nonmajor governmental fund).

- B.** On August 24, 2006, the District issued general obligation bonds (Series 2007 Refunding Bonds) to advance refund a portion of the Series 2001 Bonds. The issuance proceeds of \$955,000 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased (in-substance) and, accordingly, has been removed from the statement of net assets.

The Series 2007 Refunding Bonds are comprised of current interest term bonds, par value \$955,000. Interest rates range from 5.00% to 5.25%. The current interest term bonds mature on December 1 of 2017 through 2022.

The reacquisition price exceeded the net carrying amount of the old debt by \$69,305. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$60,458, resulting in an economic gain of \$47,401.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year	Series 2001 Bonds			Series 2007 Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 60,000	\$ 49,708	\$ 109,708	\$ -	\$ 49,438	\$ 49,438
2009	65,000	46,722	111,722	-	49,437	49,437
2010	70,000	43,465	113,465	-	49,438	49,438
2011	75,000	39,930	114,930	-	49,437	49,437
2012	80,000	36,113	116,113	-	49,438	49,438
2013 - 2017	555,000	90,866	645,866	-	247,187	247,187
2018 - 2022	-	-	-	775,000	153,506	928,506
2023	-	-	-	180,000	4,725	184,725
Total	<u>\$ 905,000</u>	<u>\$ 306,804</u>	<u>\$ 1,211,804</u>	<u>\$ 955,000</u>	<u>\$ 652,606</u>	<u>\$ 1,607,606</u>

D. During fiscal 2007, the following changes occurred in the governmental activities long-term obligations:

Governmental Activities:	Balance 6/30/2006	Increases	Decreases	Balance 6/30/2007	Amounts Due in One Year
<u>General obligation bonds</u>					
Series 2001 bonds	\$ 1,920,000	\$ -	\$ (1,015,000)	\$ 905,000	\$ 60,000
Series 2007 refunding bonds	-	955,000	-	955,000	-
<u>Other long-term obligations</u>					
Capital lease obligation	111,256	-	(108,315)	2,941	2,941
Compensated absences	185,489	48,915	(17,760)	216,644	23,148
Total	<u>\$ 2,216,745</u>	<u>\$ 1,003,915</u>	<u>\$ (1,141,075)</u>	2,079,585	<u>\$ 86,089</u>
Add: Unamortized premium on refunding				96,724	
Less: Unamortized deferred charge on refunding				(65,751)	
Total governmental activities				<u>\$ 2,110,558</u>	

Compensated absences will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund.

The District's capital lease obligation is described in Note 9.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. Legal Debt Margins

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The effects of these debt limitations at June 30, 2007, are a legal voted debt margin of \$750,033 (including available funds of \$98,209) and a legal unvoted debt margin of \$27,909.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the District contracted with Indiana Insurance Company to provide the following coverage:

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

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

B. Employee Group Health Insurance

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

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

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

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

C. Workers' Compensation

The District no longer participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2). Since the 2004-2005 fiscal year the district has been individually rated because of a claim allowed by the Bureau of Worker Compensation to allow the claim the wife of a deceased custodian that his death was due to asbestosis contracted while in the employ of the Lowellville School District. The District has appealed this claim and although the claim is being paid, the District will continue to appeal the claim.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - 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 (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$46,489, \$60,007, and \$54,059; 38.43 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$28,625 represents the unpaid contribution for fiscal year 2007.

B. State Teachers Retirement System

The 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, or by visiting the STRS Ohio website at www.strsoh.org.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$285,770, \$294,685, and \$305,898; 82.79 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$49,177 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$0 made by the District and \$7 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System of Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$21,982 for fiscal year 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 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.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$23,573 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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(d) Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (33,808)
Net adjustment for revenue accruals	11,604
Net adjustment for expenditure accruals	(34,657)
Net adjustment for other financing sources/uses	259,185
Adjustment for encumbrances	49,680
GAAP basis	\$ 252,004

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance at June 30, 2006	\$ 87,940	\$(13,455,712)
Current year set-aside requirement	101,014	101,014
Current year qualifying expenditures	(74,879)	(369,106)
Set-aside balance at June 30, 2007	\$ 114,075	\$(13,723,804)
Balance carried forward to FY2008	\$ 114,075	\$(13,455,712)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - STATUTORY RESERVES - (Continued)

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

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for textbooks/instructional materials	\$ 114,075
Amount restricted for school bus purchases	<u>121,487</u>
Total restricted assets	<u>\$ 235,562</u>



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lowellville Local School District as of and for the fiscal year ended June 30, 2007, which collectively comprise Lowellville Local School District's basic financial statements and have issued our report thereon dated December 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lowellville Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lowellville Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Lowellville Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lowellville Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lowellville Local School District's financial statements that is more than inconsequential will not be prevented or detected by the Lowellville Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lowellville Local School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
Lowellville Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lowellville Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 2007-LLSD-001, 2007-LLSD-002, 2007-LLSD-003, and 2007-LLSD-004.

We noted certain matters that we reported to the management of the Lowellville Local School District in a separate letter dated December 5, 2007.

Lowellville Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Lowellville Local School District's responses, and accordingly, we express no opinion on them.

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

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

Julian & Grube, Inc.
December 5, 2007

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-LLSD-001

Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by resolution and comply with the same provisions of the law as used in making the original appropriations.

It was noted during the audit that the District did not timely modify its appropriations throughout the year or by year end.

By not timely and properly modifying the District's appropriations, the District is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that District adopt accounting policies for amending appropriations, consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments to the District Board as necessary. We recommend the District utilize its accounting software or a spreadsheet to help monitor the budget.

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

Finding Number	2007-LLSD-002
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

The District had expenditures exceeding appropriations at the legal level of control. The following schedule shows the instances in which expenditures exceeded appropriations at the legal level of control at year end.

December 31, 2006:

<u>Non Major Funds</u>	<u>Excess</u>
Lowellville Foundation (Fund 029)	\$ 243
EMIS (Fund 432)	5,475
Ohio Reads (Fund 459)	2,540
Summer School Subsidy (Fund 460)	3,212
Title IID (Fund 599)	32,330
Permanent Improvement (Fund 003)	16,134
Schoolnet Plus (Fund 450)	4,875

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LLSD-002 - (continued)

June 30, 2007:

Non Major Funds

Principals Fund (Fund 018)	\$ 49
Green Team Grant (Fund 019)	2,683
EMIS (Fund 432)	787
One Net (Fund 451)	6,000
Professional Development (Fund 452)	2,300
Ohio Reads (Fund 459)	2,000
Poverty Aid (Funds 447 + 494)	12,586
Entry Year Program (Fund 499)	6,526
IDEA Part B (Fund 516)	23,164
Title IV (Fund 584)	2,112
Title IIA (Fund 590)	1,165
Title IID (Fund 599)	35,846
Permanent Improvement (Fund 003)	35,743

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

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

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

Finding Number	2007-LLSD-003
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Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed total estimated resources.

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

June 30, 2007:

<u>Non Major Funds</u>	<u>Excess</u>
District Managed Student Activity (Fund)	\$ 2,275
Poverty Aid (Fund 494)	41,859
Title I (Fund 572)	34
Endowment (Fund 008)	740

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

**SCHEDULE OF FINDINGS & RESPONSES
JUNE 30, 2007**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LLSD-003 - (continued)

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

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

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

Finding Number	2007-LLSD-004
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Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the District Treasurer that revenue to be collected will be greater or less than the amount in the last certified amended certificate.

It was noted during the year that the District did not request timely amended certificates throughout the year upon notice of increased or decreased resources.

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed estimated resources, throughout the year and at fiscal year end.

We recommend that the District review its available resources versus its appropriations throughout the year and file amended certificates when necessary. This will facilitate the District's appropriation process.

Client Response: The District is attempting to monitor fiscal budget more closely and to submit additional amendments for estimated resources more frequently throughout the fiscal year and at fiscal year end.

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

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-LLSD-001	Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations.	No	Finding repeated as 2007-LLSD-001
2006-LLSD-002	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Finding Repeated as 2007-LLSD-002



Mary Taylor, CPA
Auditor of State

LOWELLVILLE LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**