



**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Lordstown Local School District
Trumbull County
1824 Salt Springs Road
Warren, Ohio 44481

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Lordstown Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lordstown Local School District, Trumbull County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying general-purpose financial statements have been prepared assuming that Lordstown Local School District will continue as a going concern. As discussed in Note 19 to the general-purpose financial statements, the District has been declared to be in fiscal emergency under the criteria established by Ohio Revised Code Chapter 3316. This condition raises substantial doubt about the District's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 20, 2001

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LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS									
ASSETS:									
Equity in pooled cash and cash equivalents	440,855	101,130		11,444	63,457	160,059			776,945
Receivables (net of allowances of uncollectibles):									
Taxes - current & delinquent	4,278,858		210,650						4,489,508
Accounts	16,750				851				17,601
Due from other governments		26,907			11,721				38,628
Due from other funds						142,879			142,879
Interfund loan receivable	68,003								68,003
Prepayments	13,151								13,151
Materials and supplies inventory					2,834				2,834
Restricted assets:									
Equity in pooled cash and cash equivalents	117,840								117,840
Property, plant and equipment (net of accumulated depreciation where applicable)					3,156,691		11,911,926		15,068,617
OTHER DEBITS:									
Amount available in debt service fund								82	82
Amount to be provided for retirement of general long-term obligations								2,321,360	2,321,360
Total assets and other debits	4,935,457	128,037	210,650	11,444	3,235,554	302,938	11,911,926	2,321,442	23,057,448

(Continued)

LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
LIABILITIES, EQUITY AND OTHER CREDITS									
LIABILITIES:									
Accounts payable	59,382	6,333		37	14,659				80,411
Accrued wages and benefits.	514,716	14,483			259,640				788,839
Compensated absences payable.	8,905				183,015			381,188	573,108
Pension obligation payable					3,162	136,700		40,157	180,019
Interfund loan payable		23,366			44,637				68,003
Deferred revenue	4,271,247	26,907	210,568						4,508,722
Due to other governments.						127,534			127,534
Due to students						37,205			37,205
Due to other funds.	76,476	3,775			62,628				142,879
Early retirement incentive payable								187,070	187,070
Energy conservation notes payable								1,713,027	1,713,027
Total liabilities	<u>4,930,726</u>	<u>74,864</u>	<u>210,568</u>	<u>37</u>	<u>567,741</u>	<u>301,439</u>		<u>2,321,442</u>	<u>8,406,817</u>
EQUITY AND OTHER CREDITS:									
Investment in general fixed assets.							11,911,926		11,911,926
Contributed capital					3,015,329				3,015,329
Retained earnings (accumulated deficit):									
Unreserved					(347,516)				(347,516)
Fund balances:									
Reserved for encumbrances	57,996	2,664							60,660
Reserved for prepayments	13,151								13,151
Reserved for tax revenue unavailable for appropriation	1,662		82						1,744
Reserved for BWC refund	37,540								37,540
Reserved for textbooks	80,300								80,300
Unreserved-undesignated (deficit).	(185,918)	50,509		11,407		1,499			(122,503)
Total equity and other credits	<u>4,731</u>	<u>53,173</u>	<u>82</u>	<u>11,407</u>	<u>2,667,813</u>	<u>1,499</u>	<u>11,911,926</u>		<u>14,650,631</u>
Total liabilities, equity and other credits.	<u>4,935,457</u>	<u>128,037</u>	<u>210,650</u>	<u>11,444</u>	<u>3,235,554</u>	<u>302,938</u>	<u>11,911,926</u>	<u>2,321,442</u>	<u>23,057,448</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	4,331,350		203,151			4,534,501
Earnings on investments.	44,044					44,044
Extracurricular activities.		13,544				13,544
Other local revenues.	197,113	52,238				249,351
Intergovernmental - State.	2,209,895	69,349		6,453	21,555	2,307,252
Intergovernmental - Federal		188,191				188,191
Total revenue.	6,782,402	323,322	203,151	6,453	21,555	7,336,883
Expenditures:						
Current:						
Instruction:						
Regular.	2,740,706	21,969		4,216		2,766,891
Special	266,062	51,419				317,481
Vocational	59,518	114,172			21,061	194,751
Other	172,395					172,395
Support services:						
Pupil	232,951	9,886				242,837
Instructional staff.	154,452	7,611				162,063
Board of Education.	60,807					60,807
Administration	443,084	38,743				481,827
Fiscal	218,812	2,188				221,000
Business	38,786					38,786
Operations and maintenance	735,676	959				736,635
Pupil transportation.	295,971					295,971
Central		8,702				8,702
Community services		4,147				4,147
Extracurricular activities	142,508	40,062				182,570
Facilities acquisition and construction	767					767
Pass-through payments		3,769				3,769
Debt service:						
Principal retirement.	800,000		112,213			912,213
Interest and fiscal charges	10,834		92,175			103,009
Total expenditures	6,373,329	303,627	204,388	4,216	21,061	6,906,621
Excess (deficiency) of revenues over (under) expenditures	409,073	19,695	(1,237)	2,237	494	430,262
Other financing sources (uses):						
Operating transfers out	(72,775)					(72,775)
Proceeds from sale of notes.	800,000					800,000
Proceeds from sale of fixed assets	375					375
Total other financing sources (uses)	727,600					727,600
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).	1,136,673	19,695	(1,237)	2,237	494	1,157,862
Fund balances (deficits), July 1	(1,131,942)	33,478	1,319	9,170	1,005	(1,086,970)
Fund balances (deficit), June 30	4,731	53,173	82	11,407	1,499	70,892

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes.....	3,514,612	3,517,377	2,765			
Earnings on investments.....	44,009	44,044	35			
Extracurricular.....				13,416	13,544	128
Other local revenues.....	196,979	197,134	155	52,781	53,107	326
Intergovernmental - State.....	2,051,003	2,052,617	1,614	69,548	69,329	(219)
Intergovernmental - Federal.....				186,749	188,191	1,442
Total revenues.....	<u>5,806,603</u>	<u>5,811,172</u>	<u>4,569</u>	<u>322,494</u>	<u>324,171</u>	<u>1,677</u>
Expenditures:						
Current:						
Instruction:						
Regular.....	2,788,563	2,788,563	0	24,930	22,051	2,879
Special.....	266,754	266,754	0	58,186	49,393	8,793
Vocational.....	57,729	57,729	0	146,650	132,572	14,078
Other.....	172,443	164,308	8,135			
Support services:						
Pupil.....	220,145	220,145	0	13,408	8,970	4,438
Instructional staff.....	164,925	164,925	0	16,300	7,648	8,652
Board of Education.....	70,458	70,458	0			0
Administration.....	454,064	454,064	0	57,367	42,306	15,061
Fiscal.....	1,025,898	1,025,898	0	2,188	2,188	0
Business.....	38,574	38,574	0			
Operations and maintenance.....	786,444	786,444	0	961	961	0
Pupil transportation.....	321,143	321,143	0			
Central.....				13,004	10,077	2,927
Community services.....				4,186	4,186	0
Extracurricular activities.....	141,629	141,629	0	73,679	49,010	24,669
Facilities acquisition and construction..	767	767	0			
Pass through payments.....				5,659	4,019	1,640
Debt service:						
Principal retirement.....						
Interest and fiscal charges.....						
Total expenditures.....	<u>6,509,536</u>	<u>6,501,401</u>	<u>8,135</u>	<u>416,518</u>	<u>333,381</u>	<u>83,137</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(702,933)</u>	<u>(690,229)</u>	<u>12,704</u>	<u>(94,024)</u>	<u>(9,210)</u>	<u>84,814</u>
Other financing sources (uses):						
Refund of prior year's expenditures.....	155,317	155,439	122			
Proceeds from sale of notes.....	799,371	800,000	629			
Operating transfers out.....	(72,775)	(72,775)	0			
Advances in.....	51,217	51,257	40	21,177	21,145	(32)
Advances out.....	(65,782)	(65,782)	0	(2,470)	(250)	2,220
Proceeds from sale of fixed assets.....	375	375	0			
Total other financing sources (uses)..	<u>867,723</u>	<u>868,514</u>	<u>791</u>	<u>18,707</u>	<u>20,895</u>	<u>2,188</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)...	164,790	178,285	13,495	(75,317)	11,685	87,002
Fund balances, July 1.....	245,562	245,562	0	61,507	61,507	0
Prior year encumbrances appropriated...	17,470	17,470	0	19,953	19,953	0
Fund balances, June 30.....	<u>427,822</u>	<u>441,317</u>	<u>13,495</u>	<u>6,143</u>	<u>93,145</u>	<u>87,002</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
1,015,222	1,015,222	0				4,529,834	4,532,599	2,765
						44,009	44,044	35
						13,416	13,544	128
						249,760	250,241	481
			6,453	6,453	0	2,127,004	2,128,399	1,395
						186,749	188,191	1,442
<u>1,015,222</u>	<u>1,015,222</u>	<u>0</u>	<u>6,453</u>	<u>6,453</u>	<u>0</u>	<u>7,150,772</u>	<u>7,157,018</u>	<u>6,246</u>
			10,138	6,200	3,938	2,823,631	2,816,814	6,817
						324,940	316,147	8,793
						204,379	190,301	14,078
						172,443	164,308	8,135
						233,553	229,115	4,438
						181,225	172,573	8,652
						70,458	70,458	0
						511,431	496,370	15,061
						1,028,086	1,028,086	0
						38,574	38,574	0
						787,405	787,405	0
						321,143	321,143	0
						13,004	10,077	2,927
						4,186	4,186	0
						215,308	190,639	24,669
						767	767	0
						5,659	4,019	1,640
912,213	912,213	0				912,213	912,213	0
103,009	103,009	0				103,009	103,009	0
<u>1,015,222</u>	<u>1,015,222</u>	<u>0</u>	<u>10,138</u>	<u>6,200</u>	<u>3,938</u>	<u>7,951,414</u>	<u>7,856,204</u>	<u>95,210</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,685)</u>	<u>253</u>	<u>3,938</u>	<u>(800,642)</u>	<u>(699,186)</u>	<u>101,456</u>
						155,317	155,439	122
						799,371	800,000	629
						(72,775)	(72,775)	0
						72,394	72,402	8
						(68,252)	(66,032)	2,220
						375	375	0
						<u>886,430</u>	<u>889,409</u>	<u>2,979</u>
0	0	0	(3,685)	253	3,938	85,788	190,223	104,435
0	0	0	11,161	11,161	0	318,230	318,230	0
0	0	0	0	0	0	37,423	37,423	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>7,476</u>	<u>11,414</u>	<u>3,938</u>	<u>441,441</u>	<u>545,876</u>	<u>104,435</u>

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

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS (ACCUMULATED DEFICIT)/FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type
	Enterprise
Operating revenues:	
Tuition and fees	1,317,924
Sales/charges for services	145,546
Other operating revenues	18,784
Total operating revenues	1,482,254
Operating expenses:	
Personal services	1,872,118
Contract services	178,328
Materials and supplies	179,791
Depreciation	142,811
Other operating expenses	51,116
Total operating expenses	2,424,164
Operating loss	(941,910)
Nonoperating revenues:	
Operating grants	766,235
Federal commodities	12,139
Total nonoperating revenues	778,374
Net loss before operating transfers	(163,536)
Operating transfers in	72,775
Net loss	(90,761)
Depreciation on fixed assets acquired by contributed capital	128,424
Retained earnings (accumulated deficit), July 1	(385,179)
Retained earnings (accumulated deficit), June 30	(347,516)
Contributed capital at beginning of year	3,143,753
Depreciation on fixed assets acquired by contributed capital	(128,424)
Contributed capital at end of year	3,015,329
Fund equity, June 30	2,667,813

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type
	Enterprise
Cash flows from operating activities:	
Cash received from tuition and fees	1,320,238
Cash received from sales/service charges	145,684
Cash received for other revenues	19,206
Cash payments for personal services	(1,832,849)
Cash payments for contract services	(176,831)
Cash payments for materials and supplies	(168,313)
Cash payments for other expenses	(51,116)
	(743,981)
Net cash used in operating activities	(743,981)
Cash flows from noncapital financing activities:	
Cash received from operating grants	759,371
Cash received from interfund loans	44,637
Operating transfers in from other funds	72,775
Cash used in repayment of interfund loans	(51,256)
	825,527
Net cash provided by noncapital financing activities	825,527
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(63,010)
	(63,010)
Net cash used in capital and related financing activities	(63,010)
Net increase in cash and cash equivalents	18,536
Cash and cash equivalents at beginning of year	44,921
Cash and cash equivalents at end of year	63,457
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(941,910)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	142,811
Federal donated commodities	12,139
Changes in assets and liabilities:	
Decrease in materials and supplies inventory	1,491
Decrease in accounts receivable	2,874
Increase in accounts payable	514
Increase in accrued wages and benefits	24,435
Increase in compensated absences payable	31,091
Decrease in due to other governments	(9,751)
Decrease in early retirement incentive payable	(24,969)
Decrease in pension obligation payable	(43,941)
Increase in due to other funds	62,629
Decrease in deferred revenue	(1,394)
	(743,981)
Net cash used in operating activities	(743,981)

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District provides regular, vocational and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services. The District's vocational program serves the following schools on a tuition basis: Howland Local School District, McDonald Local School District, Niles City School District and Weathersfield Local School District.

The District is the 533rd largest in the State of Ohio (among 682 public and community school Districts) in terms of enrollment. It currently operates 1 elementary school and 1 comprehensive middle/high school. The District is staffed by 35 non-certified and 77 certificated personnel to provide services to approximately 799 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (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 prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units that should be blended or discretely presented in the financial statements of the District. The following organizations are described due to its relationship with the District:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

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

Superintendents and Treasurers of the participating school districts are eligible to be voting members of the Governing Board which consists of ten voting members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and one treasurer from each of the aforementioned counties (non-voting members who must be employed by a participating school district, the fiscal agent, or NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A copy of NEOMIN's financial statements may be obtained from the Trumbull County Education Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing a quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a JVS, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

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

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and agency funds. The expendable trust fund is accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3.C. for agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001, and which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from income taxes is recognized in the fiscal year in which the underlying exchange occurred and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as deferred commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. 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 2001 is as follows:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
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. 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 amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
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. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances 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. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation 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. All supplemental appropriations were legally enacted by the Board of Education in fiscal year 2001. The budget figures which appear in the statements of budgetary comparisons represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types and Note 13 provides disclosure of the encumbrances outstanding for the enterprise funds at fiscal year end.

E. Cash and Investments

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

During the fiscal year, the District's investments were limited to a repurchase agreement. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2001 amounted to \$44,044, which includes \$19,358 assigned from other District funds.

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

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. *Proprietary Funds*

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Land/improvements	20
Buildings/improvements	50
Furniture, fixtures and equipment	8-20

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as non-operating when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

<p><u>Entitlements</u></p> <p>General Fund</p> <p>State Foundation Program</p> <p>School Bus Purchase Program</p> <p>State Property Tax Relief</p>	<p><u>Non-Reimbursable Grants - (Continued)</u></p> <p>Capital Projects Funds</p> <p>SchoolNet Plus</p>
<p><u>Non-Reimbursable Grants</u></p> <p>Special Revenue Funds</p>	<p><u>Reimbursable Grants</u></p> <p>General Fund</p> <p>Driver Education Reimbursement</p>
<p>Career Development</p> <p>Professional Development</p> <p>Education Management Information Systems</p> <p>Disadvantaged Pupil Impact Aid</p> <p>Ohio SchoolNet Professional Development</p> <p>Ohio Reads</p> <p>Title VI-B</p> <p>Vocational Education</p> <p>Title I</p> <p>Title II</p> <p>Title VI-R</p> <p>Public School Fund</p> <p>Network Connectivity Subsidy</p> <p>Safe Schools Helpline</p> <p>Eisenhower Grant</p> <p>Drug Free School Grant</p>	<p><u>Enterprise Funds</u></p> <p>National School Lunch Program</p> <p>Government Donated Commodities</p>

Grants and entitlements amounted to approximately 35% of the District's operating revenue during the 2001 fiscal year.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Compensated Absences

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

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

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, tax advance unavailable for appropriation, Bureau of Worker's Compensation (BWC) refund and textbooks. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2001.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2001.
- E. The District repays amounts "due to" and "due from" other funds for pension obligations and Worker's Compensation payments. The liabilities are paid from the District agency fund when due.

An analysis of interfund transactions is presented in Note 5.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by State statute. Fund balance reserves have also been established. See Note 18 for details.

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year-end.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At year-end, since prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

P. Estimates

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

Q. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

B. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2001 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Career Development	\$ 111
Title VI-B	34
Vocational Education	17,712
Title I	1,561
<u>Enterprise Funds</u>	
Special Services Rotary	9,604
Compact	345,383

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end.

The deficit fund balances in the Career Development, Title VI-B, Vocational Education and Title I special revenue funds are caused by the application of GAAP namely in the reporting of a liability for accrued wages, benefits and pension obligations attributable to the fiscal year. These deficit balances will be eliminated by intergovernmental revenues or other subsidies not recognized and recorded at June 30.

The deficit retained earnings in the Special Services Rotary enterprise fund is a result of the application of GAAP, namely in the recognition of interfund loans as a fund liability rather than as "nonoperating revenue". This deficit will be eliminated as revenues are collected to repay this interfund loan.

The deficit retained earnings in the Compact Enterprise Fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages, benefits, pension obligations, early retirement incentive, and accounts payable attributable to the fiscal year. These deficit retained earnings will be eliminated by user charges and other subsidies not recognized and recorded at June 30.

Throughout the year, the General (\$255,764), Bond Retirement (\$7,071), Food Services (\$70,319), Special Trust (\$1,913), Uniform School Supply (\$3,606), Rotary-Special Services (\$11,495), Emergency Levy (\$52,737), Compact (\$90,688), District Managed Student Activities (\$938), Career Development (\$790), Teacher Development (\$480) and Miscellaneous State Grants Funds (\$4,819) had deficit balances. This indicates money from other funds has been used to pay the obligations of these funds. contrary to Ohio law.

C. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

ASSETS

Accounts receivable	\$ 112
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LIABILITIES

Accounts payable	13,929
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4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year end, the District had \$100 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year end, the carrying amount of the District's deposits was \$57,849 and the bank balance was \$123,589. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$23,589 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money has been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$836,836</u>	<u>\$836,836</u>	<u>\$836,836</u>

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 894,785	\$ 0
Investments of the Cash		
Management pool:		
Repurchase agreement	(836,836)	836,836
Cash on hand	<u>(100)</u>	<u>---</u>
GASB Statement No. 3	<u>\$ 57,849</u>	<u>\$836,836</u>

5. INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's operating transfers during fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ ---	\$72,775
<u>Enterprise Funds</u>		
Food Service	<u>72,775</u>	<u>---</u>
Total	<u>\$72,775</u>	<u>\$72,775</u>

B. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$68,003	\$ ---
<u>Special Revenue Funds</u>		
Career Development	---	5,424
Vocational Education	---	15,721
Title II	---	2,221
<u>Enterprise Funds</u>		
Food Compact	---	35,000
Special Services Rotary	<u>---</u>	<u>9,637</u>
Total	<u>\$68,003</u>	<u>\$68,003</u>

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

C. The following is a summarized breakdown of amounts "due to" and "due from" other funds for pension obligations and worker's compensation payments:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ 76,476	\$ ---
<u>Special Revenue Funds</u>		
Career Development	606	---
Vocational Education	1,881	---
Title I	468	---
Title VI-B	819	---
<u>Enterprise Funds</u>		
Food Service	6,600	---
Compact	56,029	---
<u>Agency Funds</u>		
District Agency	<u>---</u>	<u>142,879</u>
Totals	<u>\$142,879</u>	<u>\$142,879</u>

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2000 taxes were collected was \$124,518,866. Agricultural/Residential and public utility/minerals real estate represented 30.35% or \$37,788,640 of this total, Commercial & Industrial real estate represented 26.51% or \$33,010,540 of this total, public utility tangible represented 12.63% or \$15,729,730 of this total and general tangible property represented 30.51% or \$37,989,956 of this total. The voted general tax rate at the fiscal year ended June 30, 2001 was \$38.10 per \$1,000.00 of assessed valuation for operations.

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.

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

6. PROPERTY TAXES (Continued)

The Trumbull County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$1,744 was available to the District as an advance and is recorded as revenue.

Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

7. INCOME TAX

In November of 2000, the voters of the District passed a ballot issue, whereby, the District is entitled to receive 30% of the Village of Lordstown's income tax for the period January 1, 2001 through December 30, 2001. As of June 30, 2001, total income tax revenue recognized by the District was \$373,267.

8. RECEIVABLES

Receivables at June 30, 2001, consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. 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 fiscal year guarantee of Federal funds. A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$4,278,858
Accounts	16,750
Interfund loan	68,003
 <u>Special Revenue Funds</u>	
Due from other governments	26,907
 <u>Debt Service Fund</u>	
Taxes - current and delinquent	210,650
 <u>Enterprise Funds</u>	
Accounts	851
Due from other governments	11,721

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

9. FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	Balance, 7/1/2000	Increase	Decrease	Balance, 6/30/2001
Land/Improvements	\$ 866,627			\$ 866,627
Buildings/improvements	8,501,979			8,501,979
Furniture/equipment	1,855,616	899		1,856,515
Vehicles	686,805			686,805
Total	\$ 11,911,027	\$ 899		\$ 11,911,926

A summary of the proprietary fixed assets at June 30, 2001 follows:

Land/improvements	\$141,744
Buildings/improvements	5,273,448
Furniture and equipment	1,151,534
Less: accumulated depreciation	<u>(3,410,035)</u>
Net fixed assets	<u>\$3,156,691</u>

10. LONG-TERM OBLIGATIONS

- A.** The current obligation notes outstanding, issued to provide funds for energy improvements to District buildings, is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this liability will be recorded as expenditures in the debt service fund. There were no principal and interest payments made in fiscal year 2001.

The following is a description of the District's notes outstanding as of June 30, 2001:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2000</u>	<u>Issued in 2001</u>	<u>Retired in 2001</u>	<u>Outstanding 6/30/01</u>
HB 264 Energy Notes	3.95%-5.99%	Various	<u>\$1,825,240</u>	<u>---</u>	<u>\$(112,213)</u>	<u>\$1,713,027</u>

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

10. LONG-TERM OBLIGATIONS - (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

<u>Fiscal Year Ending</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2002	\$ 111,657	\$ 86,731	\$ 198,388
2003	113,389	81,882	195,271
2004	114,688	76,870	191,558
2005	116,065	71,687	187,752
2006	117,525	66,303	183,828
2007 - 2011	612,764	243,090	855,854
2012 - 2015	<u>526,939</u>	<u>74,351</u>	<u>601,290</u>
Total	<u>\$1,713,027</u>	<u>\$700,914</u>	<u>\$2,413,941</u>

C. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences, pension obligations, and the early retirement incentive will be paid from the fund in which the employee was paid. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values.

	<u>Balance 7/1/00</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/01</u>
Compensated absences	\$ 363,057	\$ 18,131	\$ ---	\$ 381,188
Pension obligation payable	38,945	40,157	(38,945)	40,157
Energy conservation notes payable	1,825,240	---	(112,213)	1,713,027
Early retirement incentive	<u>137,488</u>	<u>263,036</u>	<u>(213,454)</u>	<u>187,070</u>
Total	<u>\$2,364,730</u>	<u>\$321,324</u>	<u>\$(364,612)</u>	<u>\$2,321,442</u>

D. On August 10, 2000, the District issued an \$800,000 tax anticipation note. The note carried an interest rate of 6.27% and was repaid on November 8, 2000. The note was a liability of the general fund (the fund that received the proceeds). The following is a summary of the tax anticipation note activity in the general fund.

<u>Balance July, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2001</u>
<u>\$ 0</u>	<u>\$800,000</u>	<u>\$(800,000)</u>	<u>\$ 0</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

10. LONG-TERM OBLIGATIONS - (Continued)

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$11,206,698 and an unvoted debt margin of \$124,519.

11. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Certified employees do not earn vacation time. Classified employees who are in service for not less than twelve months each year after service of a least one contract year, are entitled to earn vacation according to the following schedule:

<u>Years of Service</u>	<u>Days of Vacation</u>
1 to 9	10
10 to 14	15
15 and up	20

Upon retirement, full-time employees are entitled to the following severance payments:

Certified employees with five years of service receive a payment of thirty percent of their unused sick leave up to a maximum of thirty days. Certified employees with years of service between ten and nineteen years, receive an additional one-seventh of unused sick balance up to twenty-eight days, for a total maximum of fifty-eight severance days. Certified employees with greater than twenty years of service receive an additional one-seventh of unused sick balance up to forty days, for a total maximum of seventy severance days.

Classified employees with five years of service receive a payment of thirty percent of their unused sick leave up to a maximum of thirty days. Classified employees with years of service between ten and nineteen years, receive an additional one-seventh of severance days of unused sick leave balance up to twenty-five days, for a total maximum of fifty-five severance days. Classified employees with greater than twenty years of service receive an additional one-seventh of unused sick leave balance up to thirty-five days, for a total maximum of sixty-five severance days.

B. Early Retirement Incentive

The District's Board of Education approved an Early Retirement Incentive Program (ERIP) for its certified employees for fiscal years 1999-2001. The incentive offered was a three year buy-out and ERIP benefits were paid out in June of 1999, 2000 and 2001. Remaining obligations under the ERIP have been reported in the general long-term obligations account group.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

11. EMPLOYEE BENEFITS - (Continued)

In the first year of the ERIP, participation was to be made available to the greater of nine individuals or 5% of all eligible certified staff. If more than that number applied and were eligible, participants were selected in order of seniority in the District. In the second and third years of the ERIP, the plan is to be made available to the greater of six individuals or 5% of all eligible certified staff. If more than that number apply and would be eligible, participants shall be selected in order of seniority in the District.

The ERIP will be deemed not to be feasible if it appears that it will not save money over the three year period following the commencement of the plan year. In the event the ERIP is not financially feasible, a plan shall not be implemented for that year.

12. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Harcum-Hyre	\$ 2,000,000	\$ 0
Aggregate		\$ 5,000,000	\$ 0
Property	Harcum-Hyre	\$37,912,900	\$5,000
Fleet:			
Comprehensive	Harcum-Hyre	\$ 3,000,000	\$ 100
Collision		\$ 3,000,000	\$ 100
Boiler and machinery	Harcum-Hyre	\$15,560,100	\$1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Employee Group Medical, Dental and Vision Insurance

The District has elected to provide a fully insured PPO medical plan. This package provides a comprehensive medical plan where members pay \$5 per visit with no deductible within the network. If members elect to go out of the network, the plan pays 80% with a deductible of \$100 for single and \$200 for family. The medical plan is administered by Medical Mutual of Ohio. The total monthly premium for the medical plan is \$276.10 for single coverage and \$706.18 for family coverage.

The District provides dental coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$33.73 for single and \$84.35 for family coverage. This premium includes the employee portion, which is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

12. RISK MANAGEMENT (Continued)

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$9.91 for single coverage and \$24.77 for family coverage. This premium includes the employee portion, which is paid by the District. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement.

C. Workers' Compensation

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

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

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

13. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains five enterprise funds to account for the operations of food service, uniform school supplies, adult education, rotary, and special enterprise. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2001.

	Food Service	Uniform School Supplies	Special Services Rotary	Special Adult Education	Compact	Total
Operating revenue	\$145,546	\$28,772	\$11,732	\$ - - -	\$1,296,204	\$1,482,254
Operating expenses						
before depreciation	219,014	27,038	15,002	- - -	2,021,299	2,281,353
Depreciation	2,051	- - -	- - -	- - -	140,760	142,811
Operating (income) loss	(75,519)	1,734	(3,270)	- - -	(864,855)	(941,910)
Operating grants	40,348	- - -	- - -	- - -	766,235	806,583
Federal donated						
commodities	12,139	- - -	- - -	- - -	- - -	12,139
Transfers in	72,775	- - -	- - -	- - -	- - -	72,775
Net (income) loss	49,743	1,734	(3,270)	- - -	(138,968)	(90,761)
Fixed assets:						
Additions - - -	- - -	- - -	- - -	63,010	63,010	
Net working capital	(4,481)	15,387	(9,604)	682	(313,042)	(311,058)
Total assets	32,617	15,387	33	682	3,186,835	3,235,554
Total liabilities	31,952	- - -	9,637	- - -	526,152	567,741
Contributed capital	- - -	- - -	- - -	- - -	3,015,329	3,015,329
Total equity	665	15,387	(9,604)	682	2,669,946	2,677,076
Encumbrances at 6/30/01	3,576	150	32	- - -	35,912	39,670

14. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2001; 5.55 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$119,804, \$111,911, and \$117,234, respectively; 40.56 percent has been contributed for fiscal

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

year 2001 and 100 percent for the fiscal years 2000 and 1999. \$71,208, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$486,963, \$465,825, and \$465,024, respectively; 80.16 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$390,363, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

15. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$156,524 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

**LORDSTOWN LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

15. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. 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 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$96,197 during the 2001 fiscal year.

16. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis); and
- (d) Intrafund transfers have been presented as other financing sources (uses) on a budget basis. Intrafund transfers have been eliminated for GAAP basis reporting purposes.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

16. BUDGETARY BASIS OF ACCOUNTING - (Continued)

**Excess of Revenues and Other Financing
Sources Over/Under Expenditures and Other
Financing Uses**

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$ 178,285	\$ 11,685	\$ ---	\$ 253
Net adjustment for revenue accruals	971,230	(849)	(812,071)	---
Net adjustment for expenditure accruals	10,694	21,769	810,834	1,954
Net adjustment for other financing sources (uses)	(140,914)	(20,895)	---	---
Encumbrances (budget basis)	<u>117,378</u>	<u>7,985</u>	<u>---</u>	<u>30</u>
GAAP basis	<u>\$1,136,673</u>	<u>\$ 19,695</u>	<u>\$ (1,237)</u>	<u>\$2,237</u>

17. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

There is no current litigation pending which would have a material effect on the financial statements.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

17. CONTINGENCIES (Continued)

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.
- The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 24, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

18. 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, 2001, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2000	\$ 18,603	\$(323,288)	\$ 37,540
Current year set-aside requirement	129,734	129,734	---
Elimination of budget stabilization reserve	---	---	(37,540)
Current year offsets	---	---	---
Qualifying disbursements	<u>(68,037)</u>	<u>(36,452)</u>	<u>---</u>
Total	<u>\$ 80,300</u>	<u>\$(230,006)</u>	<u>\$ 0</u>
Cash balance carried forward to FY 2002	<u>\$ 80,300</u>	<u>\$(230,006)</u>	<u>\$ 0</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

18. STATUTORY RESERVES (Continued)

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2001, the School Board has not taken action to designate these funds for a specific use. Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for BWC refunds	\$ 37,540
Amount restricted for textbooks	<u>80,300</u>
Total restricted assets	<u>\$117,840</u>

19. SIGNIFICANT SUBSEQUENT EVENTS

Labor contracts with both the Lordstown Teachers Association and OAPSE expired June 30, 2000. The District has settled with the OPASE union in fiscal year 2001 but currently still in negotiations with the Lordstown Teachers Association.

In accordance with Ohio Revised Code Chapter 3316, the District was placed under fiscal emergency by the Auditor of State in December 2000. The declaration of fiscal emergency results from spending exceeding revenues, relying on carry over cash balances from prior years, and borrowing to finance recent deficits.

The financial operation of the District has in part been turned over to the Financial Planning and Supervision Commission. The Commission is comprised of five members including the Superintendent of Public Instruction and the School Management Assistance Assistant Director.

The Lordstown Local School District has passed a 6 mill five year levy in November of 2001. The tax will be collected in 2002.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Lordstown Local School District
Trumbull County
1824 Salt Springs Road
Warren, Ohio 44481

To the Board of Education:

We have audited the financial statements of the Lordstown Local School District as of and for the year ended June 30, 2001, and have issued our report thereon dated December 20, 2001, in which we noted conditions raising substantial doubt about the District's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2001-11178-001. We also noted instances of noncompliance, which we have reported to management of the District in a separate letter dated December 20, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 20, 2001.

This report is intended for the information and use of the audit committee, management, the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 20, 2001

**LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDING
JUNE 30, 2001**

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

NONCOMPLIANCE CITATION

FINDING NUMBER 2001-11178-001

Ohio Revised Code § 5705.10 states that money paid into any fund shall be used only for the purpose for which the fund is established.

Throughout the year, the General (\$255,764), Bond Retirement (\$7,071), Food Services (\$70,319), Special Trust (\$1,913), Uniform School Supply (\$3,606), Rotary-Special Services (\$11,495), Emergency Levy (\$52,737), Compact (\$90,688), District Managed Student Activities (\$938), Career Development (\$790), Teacher Development (\$480) and Miscellaneous State Grants Funds (\$4,819) had deficit balances. This indicates money from other funds has been used to pay the obligations of these funds.

The Treasurer should monitor disbursements to ensure overspending does not occur and to assure that monies are being used for the purpose for which the funds were established.



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LORDSTOWN LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2002**