



Mary Taylor, CPA  
Auditor of State



**SOUTHINGTON LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Southington Local School District  
Trumbull County  
4432 State Route 305 NW  
Southington, Ohio 44470

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southington Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and Emergency Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should be read in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

March 30, 2007

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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The discussion and analysis of Southington Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

*Overall:*

- For governmental activities, net assets increased \$608 thousand, which represents a 113 percent increase from 2003.
- General revenues accounted for \$4.45 million in revenue or 74 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions and capital grants and contributions accounted for \$1.59 million or 26 percent of total governmental revenues of \$6.04 million.
- The District had \$5.42 million in expenses related to governmental activities; with \$1.59 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$4.45 million were adequate to provide for the remainder of these programs.
- Among major funds, the General Fund had \$4.61 million in revenues and \$4.24 million in expenditures. The General Fund's balance increased to \$126 thousand from a deficit of \$249 thousand. The Emergency Levy Fund had \$486 thousand in revenues and \$324 thousand in expenditures. The Emergency Levy Fund's balance increased to \$3 thousand from a deficit of \$13 thousand.

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

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

While this document contains a large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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



**Southington Local School District**  
Management's Discussion and Analysis  
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In the Statement of Net Assets and the Statement of Activities, all of the District's activities are classified as governmental.:

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

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

***Fund Financial Statements***

The analysis of the District's major funds begins on page 14. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions, however, these financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and Emergency Levy Fund.

***Governmental Funds***

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**The District as a Whole**

*Governmental Activities*

Table 1 shows net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement 34, net asset comparisons to prior fiscal years are not available.

**Table 1**

<b><u>Assets</u></b>	
Current and Other Assets	\$ 2,318,709
Capital Assets	<u>990,526</u>
Total Assets	<u><u>3,309,235</u></u>
<b><u>Liabilities</u></b>	
Long-Term Liabilities	438,072
Other Liabilities	<u>1,721,449</u>
Total Liabilities	<u><u>2,159,521</u></u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets Net of Debt	990,526
Restricted:	
Capital Projects	69,883
Set-Asides	222,408
Other Purposes	384,462
Unrestricted (Deficit)	<u>(517,565)</u>
Total Net Assets	<u><u>\$ 1,149,714</u></u>

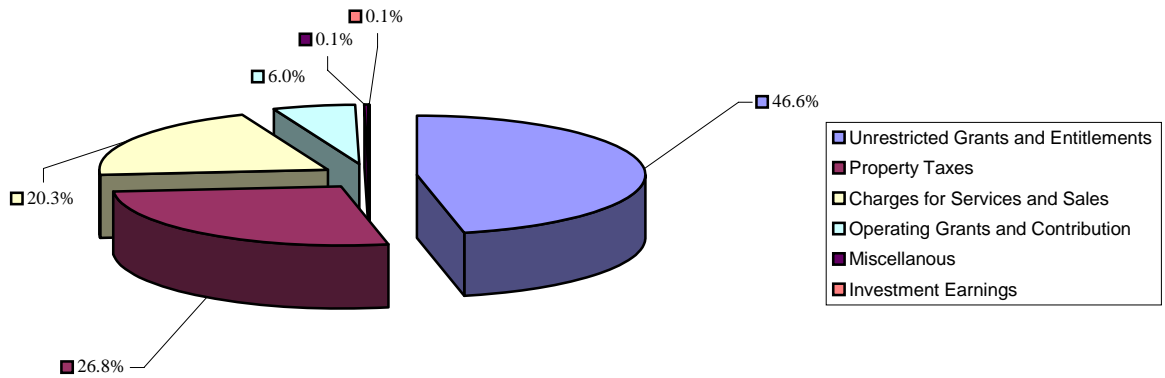
What are the District's revenue sources?

The following pie graph provides a summary of the District's governmental activities revenue sources for 2004.

**Southington Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
*Unaudited*

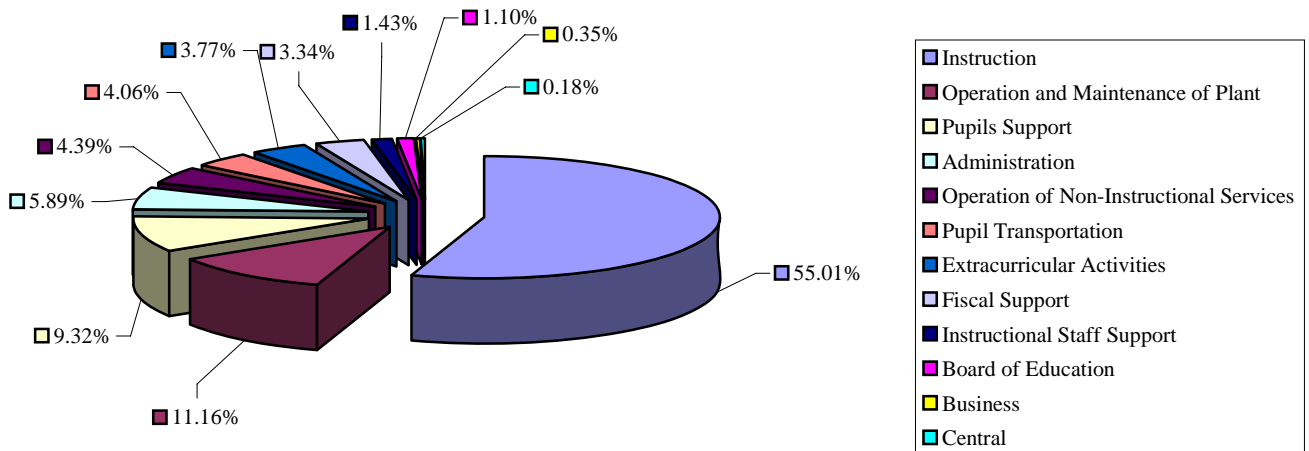
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**Revenues - Percentage View**



Where does the District spend its revenues?

**Expenditures - Percentage View**



**Southington Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
*Unaudited*

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

Thus, districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 26.8 percent of revenue for governmental activities for Southington Local School District in fiscal year 2004, due to a large amount of revenue from grants and entitlements.

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

**Table 2**

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

	Total Cost of Service	Net Cost of Service
Instruction	\$ 2,983,756	\$ 1,652,889
Support Services		
Pupil and Instruction Staff	583,398	583,398
Board of Education, Administration, Fiscal and Business	579,499	579,499
Operation and Maintenance of Plant	605,084	605,084
Pupil Transportation	220,147	220,147
Central	9,861	9,861
Operation of Non-Instructional Services	237,950	65,237
Extracurricular Activities	204,528	121,010
Total Expenses	\$ 5,424,223	\$ 3,837,125

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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The dependence upon general tax revenues for governmental activities is apparent. Over 55.39 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 70.74 percent as shown in the above table. The community, as a whole, is by far the primary support for Southington Local School District students.

***The District's Funds***

Information about the District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5.98 million and expenditures of \$5.40 million. The net change in fund balance for the year increased by \$.57 million for fiscal year 2004.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2004 the District amended its General Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of fiscal year 2004 the General Fund, budget revenue was inline with the original budget estimate. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were also in line with projections.

***Capital Assets and Debt Administration***

At the end of fiscal year 2004, the District had \$990 thousand (net) invested in land, buildings, equipment and vehicles in governmental activities.

Table 3 shows fiscal 2004 net fixed asset balances for governmental type activities compared to the prior fiscal year.

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

**Table 3**

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

	Governmental Type Activities	
	2004	2003
Land	\$ 22,380	\$ 22,380
Buildings	483,937	504,937
Furniture and Equipment	285,170	307,672
Vehicles	199,039	214,539
Totals	\$ 990,526	\$ 1,049,528

The District maintained a \$19,406 budgetary stabilization reserve.

**Current Financial Related Activities**

As the preceding information shows, the District heavily depends on its property taxpayers. With the passage of a 3.7 mill operating levy renewal and collection continuing in January 2004, the District has been able to continue its education programs. However, financially the future is not without challenges.

While the District was successful in increasing its tax revenue base in 2004, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast.

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

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

**Southington Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. Virtually, no additional state revenue will be available to Southington Local School District. Thus, both taxes and state revenue are fixed or declining. The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Vickie Browning, Treasurer, at Southington Local School District, 4432 State Route 305 NW, Southington, OH 44470.

**Southington Local School District**  
*Statement of Net Assets*  
*June 30, 2004*

		Governmental Activities
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$	550,821
Restricted Assets:		
Cash and Cash Equivalents		143,781
Receivables:		
Taxes		1,402,075
Accounts Intergovernmental		146,818
Inventory Held for Resale		69,539
Materials and Supplies Inventory		5,168
Nondepreciable Capital Assets		507
Depreciable Capital Assets, Net		22,380
		968,146
<i>Total Assets</i>	\$	3,309,235
<b>Liabilities</b>		
Accounts Payable	\$	2,184
Accrued Wages and Benefits		288,164
Intergovernmental Payable		17,850
Pension Obligation Payable		84,508
Deferred Revenue		1,328,743
Long-Term Liabilities:		
Due Within One Year		2,093
Due Within More Than One Year		435,979
		435,979
<i>Total Liabilities</i>	\$	2,159,521
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$	990,526
Restricted for:		
Capital Projects		69,883
Set-Asides		222,408
Other Purposes		384,462
Unrestricted (Deficit)		(517,565)
<i>Total Net Assets</i>	\$	1,149,714

See accompanying notes to the basic financial statements



**Southington Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 2,660,473	\$ 966,001	\$ -	\$ (1,694,472)
Special	323,283	-	364,866	41,583
Support Services:				
Pupils	505,780	-	-	(505,780)
Instructional Staff	77,618	-	-	(77,618)
Board of Education	59,704	-	-	(59,704)
Administration	319,597	-	-	(319,597)
Fiscal	181,374	-	-	(181,374)
Business	18,824	-	-	(18,824)
Operation and Maintenance of Plant	605,084	-	-	(605,084)
Pupil Transportation	220,147	-	-	(220,147)
Central	9,861	-	-	(9,861)
Operation of Non-Instructional Services	237,950	172,713	-	(65,237)
Extracurricular Activities	204,528	83,518	-	(121,010)
<i>Total Governmental Activities</i>	<u>5,424,223</u>	<u>1,222,232</u>	<u>364,866</u>	<u>(3,837,125)</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	\$ 1,555,258
Debt Service	868
Capital Purposes	63,358
Grants and Entitlements not Restricted to Specific Programs	2,813,740
Investment Earnings	5,672
Gain on Sale of Capital Assets	-
Other Non-operating Revenues	-
Miscellaneous	6,162
<i>Total General Revenues</i>	<u>4,445,058</u>
Changes in Net Assets	607,933
<i>Net Assets Beginning of Year - As Restated, See Note 18</i>	<u>541,781</u>
<i>Net Assets End of Year</i>	<u><u>\$ 1,149,714</u></u>

See accompany notes to the basic financial statements

**Southington Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Emergency Levy Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 183,014	\$ 1	\$ 367,806	\$ 550,821
Restricted Assets:				
Cash and Cash Equivalents	143,781	-	-	143,781
Receivables:				
Taxes	958,527	388,712	54,836	1,402,075
Accounts	146,818	-	-	146,818
Intergovernmental	-	-	69,539	69,539
Interfund Receivables	4,460	-	-	4,460
Inventory Held for Resale	-	-	5,168	5,168
Materials and Supplies Inventory	-	-	507	507
	<u>1,436,600</u>	<u>388,713</u>	<u>497,856</u>	<u>2,323,169</u>
<i>Total Assets</i>				
	<u>1,436,600</u>	<u>388,713</u>	<u>497,856</u>	<u>2,323,169</u>
<b>Liabilities</b>				
Accounts Payable	1,302	613	269	2,184
Accrued Wages and Benefits	283,764	-	4,400	288,164
Compensated Absences Payable	-	-	2,093	2,093
Pension Obligation Payable	58,188	-	-	58,188
Interfund Payable	-	-	4,460	4,460
Intergovernmental Payable	17,810	-	40	17,850
Deferred Revenue	949,507	385,054	54,320	1,388,881
	<u>1,310,571</u>	<u>385,667</u>	<u>65,582</u>	<u>1,761,820</u>
<i>Total Liabilities</i>				
	<u>1,310,571</u>	<u>385,667</u>	<u>65,582</u>	<u>1,761,820</u>
<b>Fund Balances</b>				
Reserved for:				
Textbooks	89,771	-	-	89,771
Inventory	-	-	507	507
Property Taxes	9,020	3,658	516	13,194
Capital Maintenance	113,231	-	-	113,231
Budget Stabilization	19,406	-	-	19,406
Undesignated, Reported in:				
General Fund	(105,399)	(612)	-	(106,011)
Special Revenue Funds	-	-	364,236	364,236
Capital Projects Funds	-	-	67,015	67,015
	<u>126,029</u>	<u>3,046</u>	<u>432,274</u>	<u>561,349</u>
<i>Total Fund Balances</i>				
	<u>126,029</u>	<u>3,046</u>	<u>432,274</u>	<u>561,349</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,436,600</u>	<u>\$ 388,713</u>	<u>\$ 497,856</u>	<u>\$ 2,323,169</u>

See accompany notes to the basic financial statements

**Southington Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

<b>Total Governmental Fund Balances</b>	<b>\$</b>	<b>561,349</b>
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		990,526
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds		60,138
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Pension Obligation Payable		(26,320)
Compensated Absences		(435,979)
		(462,299)
Total		(462,299)
 <i>Net Assets of Governmental Activities</i>		 <b>\$ 1,149,714</b>

See accompany notes to the basic financial statements

**Southington Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Emergency Levy Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 1,065,566	\$ 431,906	\$ 61,874	\$ 1,559,346
Intergovernmental	2,588,673	54,081	528,729	3,171,483
Interest	5,176	-	496	5,672
Tuition and Fees	561,672	-	-	561,672
Extracurricular Activities	-	-	83,518	83,518
Food Services	-	-	172,461	172,461
Classroom Materials and Fees	252	-	15,341	15,593
Miscellaneous	388,988	-	13,285	402,273
<i>Total Revenues</i>	<u>4,610,327</u>	<u>485,987</u>	<u>875,704</u>	<u>5,972,018</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,321,615	143,635	63,714	2,528,964
Special	204,567	15,622	103,094	323,283
Support Services:				
Pupils	416,332	-	-	416,332
Instructional Staff	61,477	-	5,654	67,131
Board of Education	55,891	-	-	55,891
Administration	309,061	10,230	76	319,367
Fiscal	172,826	7,494	1,054	181,374
Business	18,824	-	-	18,824
Operation and Maintenance of Plant	411,833	106,611	9,871	528,315
Pupil Transportation	160,246	39,924	-	200,170
Central	-	-	9,861	9,861
Operation of Non-Instructional Services	5,559	-	231,790	237,349
Extracurricular Activities	91,839	-	115,127	206,966
Capital Outlay	-	-	306,105	306,105
Debt Service:				
Principal Retirement	-	-	845	845
<i>Total Expenditures</i>	<u>4,230,070</u>	<u>323,516</u>	<u>847,191</u>	<u>5,400,777</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>380,257</u>	<u>162,471</u>	<u>28,513</u>	<u>571,241</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	2,330	-	-	2,330
Other Financing Sources	-	-	-	-
Transfer In	-	-	153,974	153,974
Transfer Out	(7,474)	(146,500)	-	(153,974)
<i>Total Other Financing Sources (Uses)</i>	<u>(5,144)</u>	<u>(146,500)</u>	<u>153,974</u>	<u>2,330</u>
<i>Net Change in Fund Balances</i>	375,113	15,971	182,487	573,571
<i>Fund Balances Beginning of Year (Restated)</i>	<u>(249,084)</u>	<u>(12,925)</u>	<u>249,787</u>	<u>(12,222)</u>
<i>Fund Balances End of Year</i>	<u>\$ 126,029</u>	<u>\$ 3,046</u>	<u>\$ 432,274</u>	<u>\$ 561,349</u>

See accompany notes to the basic financial statements

**Southington Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in the Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

**Net Change in Fund Balances - Total Governmental Funds** \$ 573,571

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

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

Fixed Assets Additions	5,676	
Current Year Depreciation	<u>(64,468)</u>	

Total		(58,792)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		60,138
-------	--	--------

Total

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

845

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

Compensated Absences Payable	22,691	
Pension Obligation Payable	<u>9,480</u>	

32,171

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ 607,933</u></u>
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See accompany notes to the basic financial statements

**Southington Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amount		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<u>Revenue:</u>				
Taxes	\$ 1,157,987	\$ 1,157,987	\$ 1,025,276	\$ (132,711)
Intergovernmental	2,257,968	2,257,968	2,588,673	330,705
Interest	4,515	4,515	5,176	661
Tuition	282,303	282,303	323,557	41,254
Classroom Materials and Fees	220	220	252	32
Miscellaneous	681,245	681,245	388,761	(292,484)
Total Revenues	4,384,238	4,384,238	4,331,695	(52,543)
<u>Expenditures:</u>				
Instruction:				
Regular	2,193,274	2,235,380	2,033,998	201,382
Special	218,881	218,881	206,850	12,031
Other Instruction	9,559	9,559	-	9,559
Support Services:				
Pupils	288,804	288,804	410,127	(121,323)
Instructional Support	60,775	60,775	61,545	(770)
Board of Education	64,333	64,333	57,091	7,242
Administration	300,935	300,935	314,332	(13,397)
Fiscal	153,123	153,123	190,799	(37,676)
Business	11,635	11,635	18,824	(7,189)
Operation and Maintenance of Plant	267,811	290,309	401,538	(111,229)
Pupil Transportation	205,581	205,581	162,857	42,724
Operation of Non-instructional Services	34,171	399,009	374,861	24,148
Extracurricular Activities	86,339	86,339	91,839	(5,500)
Total Expenditures	3,895,221	4,324,663	4,324,661	2
Excess of Revenues Over/ (Under) Expenditures	489,017	59,575	7,034	(52,541)
<u>Other Financing Sources/(Uses):</u>				
Proceeds from Sale of Capital Assets	-	-	2,330	2,330
Refund of Prior Year Expenditures	-	-	93,617	93,617
Advance In	-	-	20,000	20,000
Advance Out	-	(4,460)	(4,460)	-
Transfer Out	-	(7,848)	(7,848)	-
Total Other Financing Sources/(Uses)	-	(12,308)	103,639	115,947
Net Change in Fund Balance	489,017	47,267	110,673	63,406
Fund Balance/(Deficit) at the Beginning of Year	193,625	193,625	193,625	-
Prior year encumbrances appropriated	22,498	22,498	22,498	-
Fund Balance/(Deficit) at the End of Year	<u>\$ 705,140</u>	<u>\$ 263,390</u>	<u>\$ 326,796</u>	<u>\$ 63,406</u>

See accompanying notes to the basic financial statements

**Southington Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
Emergency Levy Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amount		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<i>Revenue:</i>				
Taxes	\$ 415,519	\$ 415,519	\$ 415,519	\$ -
Intergovernmental	54,081	54,081	54,081	-
Total Revenues	469,600	469,600	469,600	-
<i>Expenditures:</i>				
Instruction:				
Regular	259,850	143,635	143,635	-
Special	30,400	15,622	15,622	-
Support Services:				
Administration	5,300	10,230	10,230	-
Fiscal	7,260	7,494	7,494	-
Operation and Maintenance of Plant	88,265	108,879	108,879	-
Pupil Transportation	70,650	39,924	39,924	-
Total Expenditures	461,725	325,784	325,784	-
Excess of Revenues Over/ (Under) Expenditures	7,875	143,816	143,816	-
<i>Other Financing Sources/(Uses):</i>				
Transfer Out	-	-	(146,500)	(146,500)
Total Other Financing Sources/(Uses)	-	-	(146,500)	(146,500)
Net Change in Fund Balance	7,875	143,816	(2,684)	(146,500)
Fund Balance/(Deficit) at the Beginning of Year	1	1	1	-
Prior year encumbrances appropriated	2,684	2,684	2,684	-
Fund Balance/(Deficit) at the End of Year	<u>\$ 10,560</u>	<u>\$ 146,501</u>	<u>\$ 1</u>	<u>\$ (146,500)</u>

See accompanying notes to the basic financial statements

**Southington Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2004*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 30,456	\$ 8,162
<i>Total Assets</i>	30,456	8,162
<b>Liabilities</b>		
Due to Students	-	8,162
<i>Total Liabilities</i>	-	\$ 8,162
<b>Net Assets</b>		
Held in Trust for Scholarships	30,456	
<i>Total Net Assets</i>	\$ 30,456	

See accompanying notes to the basic financial statements



**Southington Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Year Ended June 30, 2004*

	Private Purpose Trust
	Scholarship
<b>Addition</b>	
Interest	\$ 1,600
Other Operating	1,577
<b>Total Additions</b>	3,177
<b>Deduction</b>	2,324
<i>Change in Net Assets</i>	853
<i>Net Assets Beginning of Year</i>	29,603
<i>Net Assets End of Year</i>	\$ 30,456

See accompanying notes to the basic financial statements

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**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

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

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.0 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2003, was 661. The District employed 41 certified employees and 21 non-certificated employees. The District is supervised by the Trumbull County Educational Service Center, a separate entity.

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

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

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

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

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

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

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

***A. Fund Accounting***

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

For financial statement presentation purposes, the various funds of the District are grouped into the following categories: governmental and fiduciary.

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

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

Emergency Levy Fund – This fund is used to account for revenues collected by the emergency tax issues passed by the District.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

***B. Basis Of Presentation***

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

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

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

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

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

The trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***C. Basis of Accounting***

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

***E. Cash and Investments***

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." During the fiscal year, all investments were limited to a money market account and a certificate of deposit.

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings accrue to the General Fund, Special Trust Fund, and Private-Purposes Trust Fund, as authorized by Board resolution. Interest income earned in fiscal year 2004 totaled \$7,272.

***F. Taxes Receivable***

The financial statements reflect taxes receivable as of June 30, 2004. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied provided the funds are “available.” “Available” means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2004 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

***G. Inventories***

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and general supplies. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchased method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required. The District had no prepaid items.

***I. Capital Assets***

Capital assets generally relate to governmental activities. These assets result from expenditures in the governmental funds used to acquire or construct them. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.



**Southington Local School**  
 Trumbull County  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

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

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

***J. Interfund Balances***

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

***K. Interfund Activity***

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

***L. Compensated Absences***

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

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

This method is known as the vesting method. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

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

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

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

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

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

***N. Fund Balance Reserves***

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, textbooks, capital maintenance, inventories, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***O. Net Assets***

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

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

***P. Extraordinary and Special Items***

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

***Q. Estimates***

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

***R. Restricted Assets***

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. See Note 17 for additional information regarding set-asides.

**Note 3 – Budgetary Basis of Accounting**

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances –Budget (Non-GAAP Budget Basis) and Actual presented for the general fund and emergency levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**Southington Local School**  
 Trumbull County  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2004

**Note 3 – Budgetary Basis of Accounting (Continued)**

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

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

General Fund  
*Net Change in Fund Balance*

Budget Basis	\$	110,673
Net Adjustment for Revenue Accruals		278,632
Net Adjustment for Expenditure Accruals		(3,904)
Adjustment for Encumbrances		(10,288)
		(10,288)
GAAP Basis	\$	375,113

Emergency Levy Fund  
*Net Change in Fund Balance*

Budget Basis	\$	(2,684)
Net Adjustment for Revenue Accruals		16,387
Net Adjustment for Expenditure Accruals		2,268
Adjustment for Encumbrances		-
		-
GAAP Basis	\$	15,971

**Southington Local School**  
Trumbull County  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004

**Note 4 – Cash and Cash Equivalents**

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

Inactive deposits are public deposits that the District has identified as not required for use within the current 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 or deposit accounts including pass book accounts.

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

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

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**Note 4 – Cash and Cash Equivalents (Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Protection of school district 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.

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

**Deposits** At fiscal year end, the carrying amount of the District's deposits was \$733,236 and the bank balance was \$748,241 of which \$21,942 was in certificate of deposit.

Of bank balance, \$100,000 was covered by federal depository insurance and the remaining \$648,241 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirement would potentially subject the District to a successful claim by the FDIC.

**Note 5 – Property Tax**

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Trumbull County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was completed in 2002; an update will be done in 2005. The next revaluation is scheduled for 2008.

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**Note 5 – Property Tax (Continued)**

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

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

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

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

The full tax rate at the fiscal year ended June 30, 2004 for operations was \$45.85 per \$1,000 of assessed valuation and for permanent improvements, \$2.00 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2004 taxes were collected were as follows:

	2004	2003	
Real Property			
Commercial/Industrial	\$ 1,601,160	\$ 1,553,250	
Residential/Agricultural	50,406,830	49,331,060	
Tangible Personal Property			
Personal	1,107,338	1,205,688	
Public Utilities	1,913,920	1,914,170	
Total Valuation	\$ 55,029,248	\$ 54,004,168	

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**Note 6 – Receivables**

Receivables at June 30, 2004 consisted of taxes, accounts (miscellaneous), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

Non-major Governmental Funds:	
Title I	\$ 59,933
Emergency Repair Grant	<u>9,606</u>
Total Intergovernmental Receivable	<u><u>\$ 69,539</u></u>

**Note 7 – Interfund Balances**

***A. Interfund Transfers***

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

Fund	Transfer Out	Transfer In
General	\$ 7,474	
Emergency Levy	146,500	
Public Support Secondary		\$ 211
Severence Fund		146,500
Athletic Department		7,263

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



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**Note 7 – Interfund Balances (Continued)**

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

The interfund receivable/payable consisted of the following at June 30, 2004, as reported on the fund financial statements:

Fund	Interfund Receivable	Interfund Payable
General	\$ 4,460	
Emergency Repair Grant		\$ 4,460

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

**Note 8 – Notes and Long-Term Debt**

A summary of changes in long-term obligations for the year ended June 30, 2004, are as follows:

	Principal Outstanding 6/30/2003	Additions	Reductions	Principal Outstanding 6/30/2004	Amounts Due in One Year
<b>Governmental Activities</b>					
Asbestos Loan Payable	845	-	845	-	-
Compensated Absences	458,670	134,618	155,216	438,072	2,093
Total Governmental Activities Long-Term Liabilities	\$ 459,515	134,618	156,061	\$ 438,072	\$ 2,093

The Ohio Revised Code (ORC) provides that the voted net general obligation debt of the school district shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt. The District's unvoted debt limit is \$55,029. The voted debt limit at June 30, 2004 is \$4,952,632.

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**Note 9 – Capital Assets**

In fiscal year 2004, the District discovered an understatement on the capital assets and reclassification of capital assets. The District also began to depreciate the capital assets in the governmental activities.

	<u>Balance</u> <u>6/30/2003</u>	<u>Adjustments</u>	<u>GASB 34</u> <u>Adjustments</u>	<u>Balance</u> <u>7/1/2003</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 22,380	\$ -	\$ -	\$ 22,380
<i>Total Capital Assets, not being depreciated:</i>	<u>22,380</u>	<u>-</u>	<u>-</u>	<u>22,380</u>
<i>Capital Assets, being depreciated:</i>				
Buildings	1,157,200	-	-	1,157,200
Improvements	23,949	-	-	23,949
Furniture, Equipment, and Fixtures	1,059,617	(6,650)	35,504	1,088,471
Vehicles	516,398	(172,970)	-	343,428
<i>Total Capital Assets, being depreciated:</i>	<u>2,757,164</u>	<u>(179,620)</u>	<u>35,504</u>	<u>2,613,048</u>
Less Accumulated Depreciation:				
Buildings	-	-	(652,473)	(652,473)
Improvements	-	-	(23,949)	(23,949)
Furniture, Equipment, and Fixtures	-	-	(780,799)	(780,799)
Vehicles	-	-	(128,889)	(128,889)
<i>Total Accumulated Depreciation</i>	<u>-</u>	<u>-</u>	<u>(1,586,110)</u>	<u>(1,586,110)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>2,757,164</u>	<u>(179,620)</u>	<u>(1,550,606)</u>	<u>1,026,938</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,779,544</u>	<u>\$ (179,620)</u>	<u>\$(1,550,606)</u>	<u>\$ 1,049,318</u>

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**Note 9 – Capital Assets (Continued)**

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

	Balance 7/1/2003	Addition	Deletion	Balance 6/30/2004
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 22,380	\$ -	\$ -	\$ 22,380
<i>Total Capital Assets, not being depreciated:</i>	<u>22,380</u>	<u>-</u>	<u>-</u>	<u>22,380</u>
<i>Capital Assets, being depreciated:</i>				
Buildings	1,157,200	-	-	1,157,200
Improvements	23,949	-	-	23,949
Furniture, Equipment, and Fixtures	1,088,471	8,006	(2,330)	1,094,147
Vehicles	343,428	-	-	343,428
<i>Total Capital Assets, being depreciated:</i>	<u>2,613,048</u>	<u>8,006</u>	<u>(2,330)</u>	<u>2,618,724</u>
Less Accumulated Depreciation:				
Buildings	(652,473)	(20,790)	-	(673,263)
Improvements	(23,949)	-	-	(23,949)
Furniture, Equipment, and Fixtures	(780,799)	(28,178)	-	(808,977)
Vehicles	(128,889)	(15,500)	-	(144,389)
<i>Total Accumulated Depreciation</i>	<u>(1,586,110)</u>	<u>(64,468)</u>	<u>-</u>	<u>(1,650,578)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>1,026,938</u>	<u>(56,462)</u>	<u>(2,330)</u>	<u>968,146</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,049,318</u>	<u>\$ (56,462)</u>	<u>\$ (2,330)</u>	<u>\$ 990,526</u>

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**Note 9 – Capital Assets (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 36,132
Support Services:	
Board of Education	3,813
Administration	230
Operation and Maintenance of Plant	6,873
Pupil Transportation	16,254
Operation of Non-instructional Services	601
Extracurricular Activities	565
Total Depreciation Expense	\$ 64,468

**Note 10 – Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only personnel who are under a full year contract (260 days) are eligible for vacation time. The number of days granted is determined upon length of service. For fiscal year 2004, the Superintendent is granted twenty days of vacation.

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

The classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-6	10
7-14	15
15-beyond	20

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for certified and classified employees is 305 days.

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**Note 10 – Compensated Absences (Continued)**

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement if the employee has been employed by the District for a minimum of five consecutive years and has ten years of service with the state retirement system at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 76 1/4 days. The Superintendent is entitled to severance on all accumulated and unused sick leave without limit per contract.

**Note 11 – Defined Benefit Pension Plans**

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$68,827, \$83,112, and \$74,064, respectively; 35 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

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

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

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**Note 11 – Defined Benefit Pension Plans (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$237,860, \$264,312, and \$280,776, respectively; 75.5 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. \$58,188 representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

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**Note 12 – Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$16,990 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$31,450.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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**Note 13 – Other Employee Benefits**

***A. Life Insurance Benefits***

The District provides life insurance and accidental death and dismemberment insurance to most employees through Fort Dearborn Life Insurance Company, in the amount of \$50,000 for all regular contracted certified employees and \$30,000 for all regular contracted classified employees.

***B. Health Insurance Benefits***

The District provides employee medical and surgical plans through Medical Mutual of Ohio. Employees may choose between two comprehensive major medical plans for medical/surgical insurance. These plans provide medical/surgical coverage with deductibles ranging from zero to \$200 for single coverage and zero to \$400 for family coverage with a maximum of \$1,000 per individual and \$2,000 per family. The District provides prescription drug and dental through Medical Mutual of Ohio.

**Note 14 – Risk Management**

***A. General Risk***

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

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

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$9,493,257.

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

***B. Workers' Compensation***

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



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**Note 14 – Risk Management (Continued)**

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

**Note 15 – Jointly Governed Organizations and Public Entity Risk Pools**

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Trumbull County superintendents (permanent members), three superintendents from Trumbull County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2004. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

***Trumbull County Career and Technical Center (TCTC)*** The District is a member of the Trumbull County Career and Technical Center. The TCTC has a nineteen-member board and is funded by levying millage and state and federal support. The District has board representation.

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

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

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**Note 15 – Jointly Governed Organizations and Public Entity Risk Pools (Continued)**

*Northeast Ohio Instructional Media Center (NEOIMC)* NEOIMC is a jointly governed organization among forty-five school districts. This jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member districts. Each member pays a monthly premium based on the use of the media materials

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting the Treasurer of the Trumbull Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

**Note 16 – Contingencies**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the District at June 30, 2004.

**B. Litigation**

The District is not party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2004.

**Note 17 – School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Southington Local School**  
 Trumbull County  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2004

**Note 18 – Statutory Reserves**

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

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 (h), effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2004, the District has not taken action to eliminate this reserve in accordance with Am. Sub. Senate Bill 345.

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

	Textbooks	Maintenance Reserve	Stabilization Reserve	Total
Set-aside cash balance as of June 30, 2003	\$ 59,053	\$ 42,541	\$ 19,406	\$ 121,000
Current year set-aside requirement	89,394	89,394	-	178,788
Qualifying Expenditures	58,675	18,704	-	77,379
Totals	\$ 207,122	\$ 150,639	\$ 19,406	\$ 377,167
Set-aside cash balance carried forward to FY 2005	<u>89,771</u>	<u>113,231</u>	<u>19,406</u>	

**Southington Local School**  
 Trumbull County  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2004

**Note 19 – Changes in Accounting Principals and Restatement of Fund Balance**

**Changes in Accounting Principles** For the fiscal year 2004, the School District has implemented GASB No. 34, “Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments”, GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, GASB No. 41, “Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements No. 37, 38, and 41.

**Restatement of Fund Balances** The restatements of fund equity for correction of prior year accrual balances and assets and fund reclassification had the following effect on the fund balances of the major and non-major funds of the School District as they were previously reported.

	General Fund	Emergency Levy Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balances at June 30, 2003	\$ (251,411)	\$ (12,925)	\$ 215,465	\$ (48,871)
Fund Reclassification	2,327	-	34,322	36,649
Fund Balances at July 1, 2003	<u>\$ (249,084)</u>	<u>\$ (12,925)</u>	<u>\$ 249,787</u>	<u>\$ (12,222)</u>

In fiscal year 2004, the Lunchroom Fund and Uniform School Supplies Fund which previously reported under the Enterprise Funds; and the Special Trust Funds which previously reported under Fiduciary Funds were reclassified to Special Revenue Funds.

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

**Southington Local School**  
 Trumbull County  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2004

**Note 19 – Changes in Accounting Principals and Restatement of Fund Balance (Continued)**

	General Fund	Emergency Levy Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances at June 30, 2003	\$ (249,084)	\$ (12,925)	\$ 249,787	\$ (12,222)
Adjustments:				
Capital Asset				1,049,318
GASB 34				
Long-term Liabilities				(495,315)
Governmental Activities Net Assets at June 30, 2003				\$ 541,781

The transition from fiduciary fund equity to net assets is presented as followed:

	Private-Purpose Trust Fund
Fund Equity as June 30, 2003	\$ 31,930
Fund Reclassification	(2,327)
Net Assets as June 30, 2003	\$ 29,603

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# Mary Taylor, CPA

## Auditor of State

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

Southington Local School District  
Trumbull County  
4432 State Route 305 NW  
Southington, Ohio 44470

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southington Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2007, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

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

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

Southington Local School District  
Trumbull County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the management and the Board of Education.  
It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

March 30, 2007





**Mary Taylor, CPA**  
Auditor of State

**SOUTHINGTON 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  
MAY 29, 2007**