



**LORDSTOWN LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Board of Education:

We have audited the financial statements of the Lordstown Local School District, Trumbull County, as of and for the year ended June 30, 1999. These financial statements are the responsibility of the Government's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-01 requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the School District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances and reserve for encumbrances of Lordstown Local School District as of June 30, 1999, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 1999 on our consideration of the Lordstown Local School District's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants.

This report is intended solely for the information and use of the management, Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**JIM PETRO**  
Auditor of State

September 30, 1999

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types			Fiduciary Fund Type	Total
	General	Special Revenue	Capital Projects	Expendible Trust	(Memorandum Only)
<b>Cash Receipts:</b>					
Receipts from Local Sources:					
Taxes	\$3,286,659	\$795,380			\$4,082,039
Transportation Fees	178				178
Earnings on Investment	(12,735)		\$67,990		55,255
Extracurricular Activities		12,896			12,896
Miscellaneous Receipts	25,884	28,173	217,389		271,446
Receipts from State Sources:					
Unrestricted Grants-In-Aid	184,796	122,495	14,365		321,656
Restricted Grants-In-Aid		5,000	16,214		21,214
Revenue for/on Behalf of District	10,427				10,427
Receipts from Federal Sources:					
Restricted Grants-In-Aid		134,721			134,721
Revenue for/on Behalf of District		25,961			25,961
Total Cash Receipts	<u>3,495,209</u>	<u>1,124,626</u>	<u>315,958</u>	<u>0</u>	<u>4,935,793</u>
<b>Cash Disbursements:</b>					
Current:					
Instruction:					
Regular	2,468,930	140,725	88,360		2,698,015
Special	224,592	47,816			272,408
Vocational Education	33,154	94,705	1,475		129,334
Other	10,342	78,491			88,833
Support Services:					
Pupils	124,595	167,364	27,752		319,711
Instructional Staff	198,823	17,187	37,755		253,765
Board of Education	17,340	52,300			69,640
School Administration	326,201	120,177	10,258		456,636
Fiscal	100,707	75,731			176,438
Business	9,650	555			10,205
Operation and Maintenance	393,432	442,209	1,853		837,494
Student Transportation	219,857	82,305			302,162
Central	175	14,130			14,305
Operation of Non-Instructional Services:					
Food Services	(11,276)		11,276		0
Extracurricular Activities:					
Academic and Subject Oriented	4,919	14,493			19,412
Occupation Oriented	0	250			250
Sports Oriented	105,399	29,080			134,479
Co-Curricular Activities	17,262	75			17,337
Facilities Acquisition and Construction Services:					
Building Improvement			335,285		335,285
Other Facilities Acquisition and Construction	782				782
Total Cash Disbursements	<u>4,244,884</u>	<u>1,377,593</u>	<u>514,014</u>	<u>0</u>	<u>6,136,491</u>
Excess of Cash Receipts (Under)					
Cash Disbursements	<u>(749,675)</u>	<u>(252,967)</u>	<u>(198,056)</u>	<u>0</u>	<u>(1,200,698)</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds From Sale of Notes					
Transfers In			1,376,200		1,376,200
Advances In	19,114	42,677	101,096		162,887
Refund Prior Year Expenditure	105,764				105,764
Transfers Out	(51,462)				(51,462)
Advances Out	(46,616)	(17,222)			(63,838)
Pass Through Payments		(515)			(515)
Total Other Financing Sources	<u>26,800</u>	<u>24,940</u>	<u>1,477,296</u>	<u>0</u>	<u>1,529,036</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing (Uses)					
	(722,875)	(228,027)	1,279,240	0	328,338
Fund Cash Balances, July 1, 1998	<u>732,418</u>	<u>291,421</u>	<u>64,130</u>	<u>899</u>	<u>1,088,868</u>
<b>Fund Cash Balances, June 30, 1999</b>	<u><u>\$9,543</u></u>	<u><u>\$63,394</u></u>	<u><u>\$1,343,370</u></u>	<u><u>\$899</u></u>	<u><u>\$1,417,206</u></u>
Reserved for Encumbrances, June 30, 1999	<u><u>\$7,682</u></u>	<u><u>\$27,922</u></u>	<u><u>\$1,083,568</u></u>	<u><u>\$0</u></u>	<u><u>\$1,119,172</u></u>

The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
 PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND TYPE  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Total (Memorandum Only)</u>
<b>Operating Cash Receipts:</b>			
Tuition	\$899,125		\$899,125
Food Service	136,672		136,672
Classroom Materials and Fees	25,424		25,424
Extracurricular Activities		\$51,673	51,673
Miscellaneous	17,759	533,871	551,630
Total Operating Cash Receipts	<u>1,078,980</u>	<u>585,544</u>	<u>1,664,524</u>
<b>Operating Cash Disbursements:</b>			
Personal Services - Salaries	1,251,880		1,251,880
Employees' Retirement and Insurance	432,375	577,506	1,009,881
Purchased Services	265,733		265,733
Supplies and Materials	227,580		227,580
Other Objects	80,594	57,617	138,211
Total Operating Cash Disbursements	<u>2,258,162</u>	<u>635,123</u>	<u>2,893,285</u>
Excess of Operating Cash Receipts (Under) Operating Cash Disbursements	<u>(1,179,182)</u>	<u>(49,579)</u>	<u>(1,228,761)</u>
<b>Non-Operating Cash Receipts:</b>			
State Sources:			
Unrestricted Grants-In-Aid	1,133,907		1,133,907
Federal Sources:			
Unrestricted Grants-In-Aid	27,438		27,438
Refund of Prior Year's Expense	25,898		25,898
Total Non-Operating Cash Receipts	<u>1,187,243</u>	<u>0</u>	<u>1,187,243</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers and Advances	8,061	(49,579)	(41,518)
Transfers In	51,462		51,462
Advances In	3,939		3,939
Transfers-Out	(101,096)		(101,096)
Advances-Out	(1,891)		(1,891)
Total Interfund Transfers	<u>(47,586)</u>	<u>0</u>	<u>(47,586)</u>
Excess of Cash Receipts (Under) Cash Disbursements	(39,525)	(49,579)	(89,104)
Fund Cash Balances, July 1, 1998	<u>334,057</u>	<u>93,576</u>	<u>427,633</u>
<b>Fund Cash Balances, June 30, 1999</b>	<u><u>\$294,532</u></u>	<u><u>\$43,997</u></u>	<u><u>\$338,529</u></u>
Reserve for Encumbrances, June 30, 1999	<u><u>\$846</u></u>	<u><u>\$75</u></u>	<u><u>\$921</u></u>

*The notes to the financial statements are an integral part of this statement.*

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

<b>Fund Types/Funds</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Governmental Fund Types:</b>			
General Fund	\$3,825,048	\$3,600,973	(\$224,075)
Special Revenue Funds	1,113,654	1,124,626	10,972
Capital Projects Funds	1,708,093	1,793,254	85,161
<b>Proprietary Fund Type:</b>			
Enterprise Funds	1,961,717	2,317,685	355,968
<b>Fiduciary Fund Type:</b>			
Agency Funds	<u>661,270</u>	<u>585,544</u>	<u>(75,726)</u>
Total (Memorandum Only)	<u>\$9,269,782</u>	<u>\$9,422,082</u>	<u>\$152,300</u>

*The notes to the financial statements are an integral part of this statement.*

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Fund Types/Funds	Prior Year Carryover Appropriations	1999 Appropriations	Total	Actual 1998 Disbursements	Encumbrances Outstanding at 6/30/99	Total	Variance Favorable (Unfavorable)
<b>Governmental Fund Types:</b>							
General Fund	\$61,840	\$4,285,822	\$4,347,662	\$4,296,346	\$7,682	\$4,304,028	\$43,634
Special Revenue Funds	27,209	1,439,008	1,466,217	1,378,108	27,922	1,406,030	60,187
Capital Projects Funds		1,656,535	1,656,535	514,014	1,083,568	1,597,582	58,953
<b>Proprietary Fund Type:</b>							
Enterprise Funds	6,269	2,355,905	2,362,174	2,359,258	846	2,360,104	2,070
<b>Fiduciary Fund Type:</b>							
Agency Funds	1,124	665,736	666,860	635,123	75	635,198	31,662
Total (Memorandum Only)	<u>\$96,442</u>	<u>\$10,403,006</u>	<u>\$10,499,448</u>	<u>\$9,182,849</u>	<u>\$1,120,093</u>	<u>\$10,302,942</u>	<u>\$196,506</u>

*The notes to the financial statements are an integral part of this statement.*

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Lordstown Local School 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. Lordstown Local School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District.

Average daily membership (ADM) as of October 1, 1998 was 778. The School District employed 77 certificated employees and 35 non-certificated employees.

Management believes the financial statements included in this report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

**B. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-01 to prepare its annual financial report in accordance with generally accepted accounting principles, the School District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

**C. Investments**

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

**D. Fund Accounting**

The School District uses fund accounting to segregate cash and investments that are restricted as to use. The School District classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Special Revenue Funds**

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

**3. Capital Projects Funds**

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

**4. Enterprise Funds**

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

**5. Trust & Agency Funds**

Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds.

**E. Budgetary Process**

**1. Budget**

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

**2. Estimated Resources**

The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 1998 unencumbered fund balances. However, those fund balances are available for appropriations.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**F. Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund- type eliminations have not been made in the aggregation of this data.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The School District maintains a cash and investment pool used by all funds.

**Legal Requirements:** Statutes require the classification of monies held by the School District into three categories.

Category A consists of "active" monies, those monies required to be kept in a "cash" or "near cash" status for immediate use by the School District. Such monies must be maintained either as cash in the School District treasury or negotiable order of withdrawal (NOW) accounts.

Category B consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

Category C consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal 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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and, [delete if treasurer has not attended necessary training program]
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$1,755,734 and the bank balance was \$1,787,877. Of the bank balance, \$100,000 was covered by federal depository insurance; and \$1,687,877 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments - The School District's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

1. Securities held by the entity or its agent in the entity's name (Category 1).
2. Securities held by the counterparty's trust department or agent in the entity's name (Category 2).

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

3. Securities held by the counterparty, or by its trust department or agent but not in the entity's name (Category 3).

	Category 3	Carrying Value	Market Value
<b>Second National Bank</b>			
Repurchase Agreements	\$1,712,877	\$1,712,877	\$1,712,877

**3. PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35% of appraised value. The county auditor reappraises all real property every three years with a triennial update. The last update for Trumbull County was completed for tax year 1996.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the tax (calendar) year 1998 was \$38.49 for Trumbull County per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$32.52 for Trumbull County per \$1000 of assessed valuation for real property classified as residential/agricultural and \$38.49 for Trumbull County per \$1000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) year 1998 was \$38.49 for Trumbull County per \$1000 of assessed valuation.

<b>Trumbull County</b>	
Real Property - 1998 Valuation	
Residential/Agricultural	\$27,682,210
Public Utilities	631,420
Tangible Personal Property - 1998 Valuation	
General	40,367,942
Public Utilities	16,769,450
Other	<u>30,681,260</u>
Total Valuation	<u>\$116,132,282</u>

The Trumbull County Treasurer collect property taxes on behalf of all taxing districts within their respective county. The Trumbull County Auditors periodically remit to the taxing districts their portions of the taxes collected.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**4. INSURANCE**

The School District has obtained commercial insurance for the following risks:

- General liability
- Vehicles
- Errors and omissions

The School District also provides health insurance coverage to full-time employees through a private carrier.

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School Employees Retirement System of Ohio is a state operated, cost sharing, multiple employer public employee retirement system. Full time, permanent, non-certified employees of the School District belong to SERS. SERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. SERS also provides survivor and disability benefits to vested employees.

Employees contribute 9.0% of gross salary. The employer matching share is 14.0% of gross salary. The pension contribution requirement for the School District for the year ended June 30, 1999 was \$187,888.34 which consisted of \$70,654.56 from employees and \$117,233.78 from the employer. The required percentages for employer and employee contributions for the next fiscal year will be unchanged.

**B. State Teachers Retirement System**

The State Teachers Retirement System of Ohio is a state operated, cost sharing, multiple employer public employee retirement system. Full-time certified teachers of the School District belong to STRS. Teachers who are retained on personal service contracts do not participate. STRS provides retirement benefits to vested employees who are eligible to retire based upon years of service. STRS also provides survivor and disability benefits to vested employees.

Employees contribute 9.3% of gross salary. The employer matching share is 14.0% of gross salary. The pension contribution requirement for the School District for the fiscal year ended June 30, 1999 was \$772,479.56 which consisted of \$307,455.56 from employees and \$465,024.00 from the employer. The required percentages for employer and employee contributions for the next fiscal year will be unchanged.

**6. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$1,419,955.06 of school foundation support for its general fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**6. STATE SCHOOL FUNDING DECISION (Continued)**

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of September 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**7. YEAR 2000 ISSUE**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal year 1999.

The District has inventoried computer systems and other equipment necessary to conducting district operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting through the State Education Management Information Systems (EMIS).

The District uses an external service organization for its financial reporting, payroll and employee benefits systems. The service organization uses the Ohio School Fund Accounting System software for its financial reporting and the Ohio School Fund Payroll System software for its payroll and employee benefits. Both systems were developed by Snyder & Associates. The external service organization and Snyder & Associates are responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the District in the form of "foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Tax collection for the District is handled by Trumbull County. The County is responsible for remediating this system, and is solely responsible for any costs associated with this project.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be year 2000 ready, or that the District's remediation efforts will be successful in whole or in part, or that the parties with whom the District does business will be year 2000 ready.

**8. SUBSEQUENT EVENTS**

The School District received approximately \$675,000 excess state foundation money. The School District will repay the amount in fiscal year 1999-00.

The School District is currently in litigation with a former employee. While the School District is vigorously contesting the matter, the eventual outcome and/or potential loss cannot be reasonably estimated at this time.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**9. STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During fiscal year ended June 30, 1999, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 1998	\$0	\$0	\$37,540
Current year set-aside requirement	87,122	87,122	0
Current year offsets	---	---	---
Qualifying Disbursements	<u>96,686</u>	<u>177,091</u>	<u>---</u>
Total	<u>(\$9,564)</u>	<u>(\$89,969)</u>	<u>\$37,540</u>
Cash Balance carried forward to FY 2000	<u>\$0</u>	<u>\$0</u>	<u>\$37,450</u>

Although the District had qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.



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

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

To the Board of Education:

We have audited the financial statements of Lordstown Local School District as of and for the year ended June 30, 1999, and have issued our report thereon dated September 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Lordstown Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-11178-001 and 1999-11178-002. We also noted certain immaterial instances of noncompliance that we have reported to management of Lordstown Local School District in a separate letter dated September 30, 1999.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lordstown Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Lordstown Local School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-11178-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider item 1999-11178-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Lordstown Local School District in a separate letter dated December 9, 1999.

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



**JIM PETRO**  
Auditor of State

September 30, 1999

**SCHEDULE OF FINDING  
JUNE 30, 1999**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING # 1999-11178-001**

Ohio Administrative Code Section 117-2-01 requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.

However, the School District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

It is recommended that the School District prepare its annual financial report in accordance with generally accepted accounting principles.

**FINDING # 1999-11178-002**

Ohio Revised Code Section 5705.391(B) states that "School districts are required to prepare 5 year projections of revenues and expenditures as part of the spending plans. Most of the guidance on how to prepare these projections is found in Ohio Administrative Code Section 3301-92-04." Ohio Administrative Code Section 3301-92-04 states that "the projection shall contain information and be in a format as prescribed by the Department of Education and Auditor of State." Per Audit Bulletin 98-015, "the forecast is to include the following funds: general fund, emergency levy fund (passed under the provisions of 5705.194, R.C.), the textbook fund and the DPIA fund."

We believe that the District's five year projections were erroneously calculated using all of the District's funds. Therefore, the District had actual revenues that deviated 22% from projected revenues and actual expenditures that deviated 14% from projected expenditures. The District did not update its five year projection.

We recommend that the Lordstown LSD implement policies and procedures requiring the review of Audit Bulletin 98-015 when preparing their five year projections; and the Board President and Superintendent, who are most directly affected by 5705.412, should examine the proposed five year projections before they are filed with the State to ensure that the projections are calculated correctly.





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**LORDSTOWN LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 18, 2000**