



Mary Taylor, CPA
Auditor of State

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mathews Local School District
Trumbull County
4434-B Warren-Sharon Road
Vienna, OH 44473

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mathews Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mathews Local School District, Trumbull County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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 read it in conjunction with this report in assessing the results of our audit.

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

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

September 25, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Mathews Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$236,759. Net assets of governmental activities increased \$265,225, which represents a 7.31% increase from 2005. Net assets of business-type activities decreased \$28,466 or 87.21% from 2005.
- General revenues accounted for \$8,260,109 in revenue or 90.25% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$892,366 or 9.75% of total governmental revenues of \$9,152,475.
- The District had \$8,879,994 in expenses related to governmental activities; only \$892,366 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,260,109 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$8,271,058 in revenues and \$8,330,074 in expenditures and other financing uses. The general fund's fund balance decreased from \$842,718 to \$783,702.
- Net assets for the District's two enterprise funds decreased \$28,466. The enterprise funds had \$318,733 in revenues, \$354,455 in expenses and \$7,256 in transfers in.

Using these Basic Financial Statements (BFS)

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting 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.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

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

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's food service and uniform school supplies operations are reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 14-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Proprietary Funds

The District maintains proprietary funds. The District maintains two enterprise funds that account for the District's food service and uniform school supplies operations. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-52 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 compared to fiscal 2005.

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current assets	\$ 7,664,561	\$ 7,397,581	\$ 13,727	\$ 14,931	\$ 7,678,288	\$ 7,412,512
Capital assets	<u>3,248,976</u>	<u>3,067,384</u>	<u>11,584</u>	<u>11,472</u>	<u>3,260,560</u>	<u>3,078,856</u>
Total assets	<u>10,913,537</u>	<u>10,464,965</u>	<u>25,311</u>	<u>26,403</u>	<u>10,938,848</u>	<u>10,491,368</u>
<u>Liabilities</u>						
Current liabilities	5,576,552	5,475,205	33,489	28,681	5,610,041	5,503,886
Long-term liabilities	<u>1,441,371</u>	<u>1,359,371</u>	<u>52,930</u>	<u>30,364</u>	<u>1,494,301</u>	<u>1,389,735</u>
Total liabilities	<u>7,017,923</u>	<u>6,834,576</u>	<u>86,419</u>	<u>59,045</u>	<u>7,104,342</u>	<u>6,893,621</u>
<u>Net Assets</u>						
Invested in capital assets, net of debt	3,108,488	2,975,935	11,584	11,472	3,120,072	2,987,407
Restricted	72,361	84,274	-	-	72,361	84,274
Unrestricted (deficit)	<u>714,765</u>	<u>570,180</u>	<u>(72,692)</u>	<u>(44,114)</u>	<u>642,073</u>	<u>526,066</u>
Total net assets (deficit)	<u>\$ 3,895,614</u>	<u>\$ 3,630,389</u>	<u>\$ (61,108)</u>	<u>\$ (32,642)</u>	<u>\$ 3,834,506</u>	<u>\$ 3,597,747</u>

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

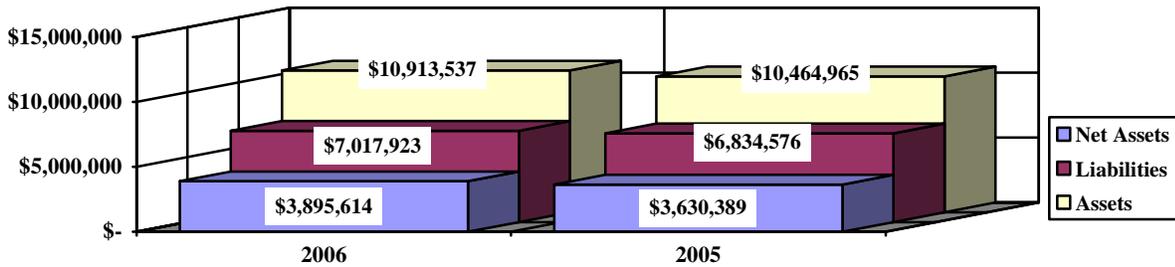
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$3,834,506.

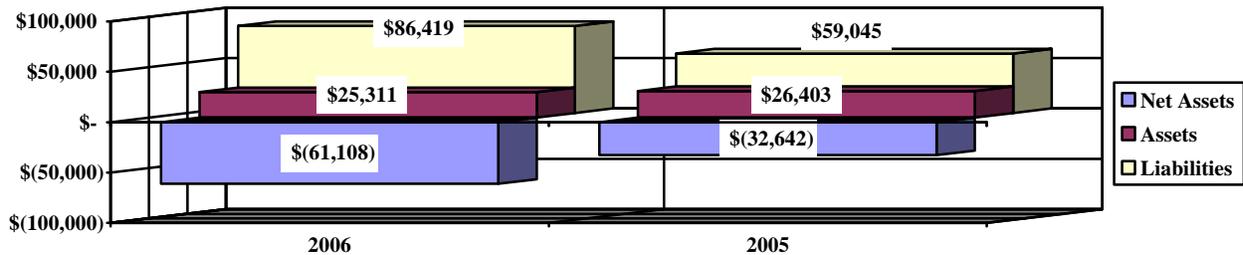
At year-end, capital assets represented 29.81% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2006, was \$3,120,072. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$72,361 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$642,073 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental - Net Assets



Business-Type - Net Assets



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2006 compared to fiscal year 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

	Change in Net Assets					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Revenues</u>						
Program revenues:						
Charges for services and sales	\$ 350,597	\$ 273,516	\$ 219,978	\$ 203,954	\$ 570,575	\$ 477,470
Operating grants and contributions	271,769	275,365	98,749	98,995	370,518	374,360
Capital grants and contributions	270,000	29,382	-	-	270,000	29,382
General revenues:						
Property taxes	4,619,016	4,678,837	-	-	4,619,016	4,678,837
Grants and entitlements	3,412,331	3,333,173	-	-	3,412,331	3,333,173
Revenue in lieu of taxes	43,433	56,952	-	-	43,433	56,952
Investment earnings	85,133	50,868	6	-	85,139	50,868
Other	100,196	37,741	-	-	100,196	37,741
Total revenues	<u>9,152,475</u>	<u>8,735,834</u>	<u>318,733</u>	<u>302,949</u>	<u>9,471,208</u>	<u>9,038,783</u>
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	4,121,178	4,100,574	-	-	4,121,178	4,100,574
Special	666,005	714,698	-	-	666,005	714,698
Vocational	73,592	130,063	-	-	73,592	130,063
Other	287,776	-	-	-	287,776	-
Support services:						
Pupil	564,654	612,621	-	-	564,654	612,621
Instructional staff	290,179	255,695	-	-	290,179	255,695
Board of Education	80,455	52,219	-	-	80,455	52,219
Administration	700,570	636,101	-	-	700,570	636,101
Fiscal	289,918	295,419	-	-	289,918	295,419
Operations and maintenance	937,804	877,297	-	-	937,804	877,297
Pupil transportation	555,877	575,753	-	-	555,877	575,753
Central	121,673	115,327	-	-	121,673	115,327
Operation of non-instructional services	4,535	1,326	-	-	4,535	1,326
Extracurricular activities	181,715	141,110	-	-	181,715	141,110
Interest and fiscal charges	4,063	6,645	-	-	4,063	6,645
Food service	-	-	332,378	297,971	332,378	297,971
Uniform school supplies	-	-	22,077	22,722	22,077	22,722
Total expenses	<u>8,879,994</u>	<u>8,514,848</u>	<u>354,455</u>	<u>320,693</u>	<u>9,234,449</u>	<u>8,835,541</u>
Excess (deficiency) before transfers	272,481	220,986	(35,722)	(17,744)	236,759	203,242
Transfers	(7,256)	(26,207)	7,256	26,207	-	-
Changes in net assets	265,225	194,779	(28,466)	8,463	236,759	203,242
Net assets (deficit), beginning of year	<u>3,630,389</u>	<u>3,435,610</u>	<u>(32,642)</u>	<u>(41,105)</u>	<u>3,597,747</u>	<u>3,394,505</u>
Net assets (deficit), end of year	<u>\$ 3,895,614</u>	<u>\$ 3,630,389</u>	<u>\$ (61,108)</u>	<u>\$ (32,642)</u>	<u>\$ 3,834,506</u>	<u>\$ 3,597,747</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

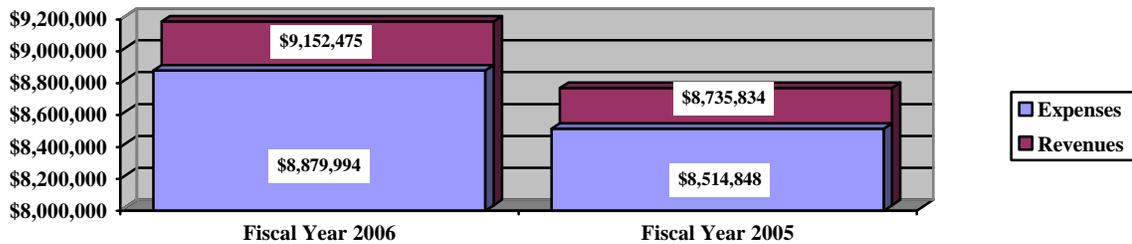
Governmental Activities

Net assets of the District's governmental activities increased by \$265,225. Total governmental expenses of \$8,879,994 were offset by program revenues of \$892,366 and general revenues of \$8,260,109. Program revenues supported 10.05% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 87.75% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

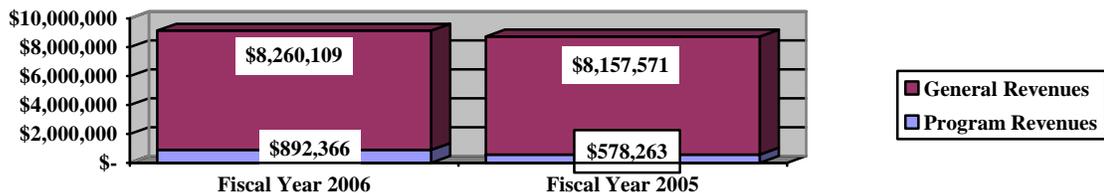
Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses:				
Instruction:				
Regular	\$ 4,121,178	\$ 3,804,540	\$ 4,100,574	\$ 3,840,779
Special	666,005	467,618	714,698	520,614
Vocational	73,592	73,592	130,063	130,063
Other	287,776	274,803	-	-
Support services:				
Pupil	564,654	558,536	612,621	604,771
Instructional staff	290,179	273,994	255,695	241,109
Board of Education	80,455	80,455	52,219	52,219
Administration	700,570	700,570	636,101	636,048
Fiscal	289,918	289,918	295,419	295,142
Operations and maintenance	937,804	937,804	877,297	867,174
Pupil transportation	555,877	549,950	575,753	565,275
Central	121,673	104,673	115,327	88,490
Operation of non-instructional services	4,535	4,535	1,326	133
Extracurricular activities	181,715	(137,423)	141,110	88,123
Interest and fiscal charges	4,063	4,063	6,645	6,645
Total expenses	<u>\$ 8,879,994</u>	<u>\$ 7,987,628</u>	<u>\$ 8,514,848</u>	<u>\$ 7,936,585</u>

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 89.74% of 2006 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support is 89.95% in 2006. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include the food service and uniform school supplies operations. These programs had revenues of \$318,733 and expenses of \$354,455 for fiscal year 2006. The District's business activities receive no support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$841,912, which is less than last year's total of \$897,461. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 783,702	\$ 842,718	\$ (59,016)
Other Governmental	<u>58,210</u>	<u>54,743</u>	<u>3,467</u>
Total	<u>\$ 841,912</u>	<u>\$ 897,461</u>	<u>\$ (55,549)</u>

General Fund

The District's general fund balance decreased by \$59,016, due primarily to a higher increase in expenditures than in revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,395,655	\$ 4,323,501	1.67 %
Interest earnings	85,133	50,868	67.36 %
Intergovernmental	3,390,878	3,333,173	1.73 %
Other revenues	<u>399,392</u>	<u>273,985</u>	45.77 %
Total	<u>\$ 8,271,058</u>	<u>\$ 7,981,527</u>	3.63 %
<u>Expenditures</u>			
Instruction	\$ 4,855,990	\$ 4,543,882	6.87 %
Support services	3,283,492	3,119,006	5.27 %
Debt service	<u>-</u>	<u>62,645</u>	(100.00) %
Total	<u>\$ 8,139,482</u>	<u>\$ 7,725,533</u>	5.36 %

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 2006, the District amended its general fund budget numerous times, none significant. For the general fund, final budgeted revenues and other financing sources were \$129,797, above original budget estimates of \$8,016,149. The actual revenues and other financing sources were \$8,255,159, which were \$109,213 more than final budgeted revenues and other financing sources.

General fund original appropriations (expenditures and other financing uses) of \$8,601,409 were decreased to \$8,386,608 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$8,250,885, which was \$135,723 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the final budget.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$3,260,560 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$3,248,976 was reported in governmental activities and \$11,584 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 363,767	\$ 363,767	\$ -	\$ -	\$ 363,767	\$ 363,767
Land improvements	331,908	347,758	-	-	331,908	347,758
Building and improvements	1,900,351	1,653,582	-	-	1,900,351	1,653,582
Furniture and equipment	482,535	486,701	11,584	11,472	494,119	498,173
Vehicles	170,415	215,576	-	-	170,415	215,576
Total	<u>\$ 3,248,976</u>	<u>\$ 3,067,384</u>	<u>\$ 11,584</u>	<u>\$ 11,472</u>	<u>\$ 3,260,560</u>	<u>\$ 3,078,856</u>

Refer to Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2006 the District had \$140,488 in capital lease obligations and an asbestos loan outstanding. Of this total, \$74,961 is due within one year and \$65,527 is due within greater than one year. The following table summarizes the lease obligations and loan outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
	Capital lease obligation	\$ 62,000
Asbestos loan	78,488	91,449
Total	<u>\$ 140,488</u>	<u>\$ 212,449</u>

At June 30, 2006 the District's overall legal debt margin was \$13,848,554 with an unvoted debt margin of \$153,873.

See Note 10 to the basic financial statements for detail on the District's long-term obligations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Current Financial Related Activities

The Mathews Local School District faces serious financial challenges. The District has a relatively flat-lined revenue stream and rising expenditures. Now, the District's revenue base is being further challenged.

The Ohio Legislature has made several significant changes impacting local taxes:

H.B. 66, adopted in June 2005, phases out all tangible personal property tax revenue by 2010. The State will fully reimburse the District for losses from this action through 2010. Then, beginning in 2011 through 2018, the reimbursement amounts will be phased out.

H.B. 283, adopted in 1999, phased out the tax on inventory property at a rate of 1% per year over a 25-year period. Amended H.B. 95, adopted in 2003, accelerated the phase out of the inventory tax beginning in 2005 and increased the reduction to 2% per year until the tax is completely eliminated. Neither H.B. 283 nor H.B. 95 contains provisions for reimbursement to school districts for this lost revenue.

H.B. 95 also phased out the \$10,000 tangible personal property tax exemption reimbursement. The final reimbursement will be in 2008.

Effective January 1, 2001, electric and gas utilities were deregulated. School districts will be reimbursed for this lost revenue for five years. The last guaranteed payment was in August 2006. Reimbursements after 2006 depend upon a qualifier. If the growth in State Foundation aid is greater than the inflation-adjusted deregulation loss, then payments stop. If this is not the case, full payments continue for the next year. The District qualifies for the reimbursement in 2007.

The District is faced with the challenge of maintaining four old buildings. The oldest building is the high school, which dates back to 1915. The Ohio School Facilities Commission currently ranks the District 466 out of 615 districts in the state to receive classroom facilities funds. In other words, 465 school districts will receive funds before the District does. It is not anticipated that the District will receive any construction funds from the State until 2015. Based on the 466 ranking, the Ohio School Facilities Commission determined the local share of the Mathews taxpayers to be 77% with the State contributing only 23% to any new or remodeled facilities.

Local business Delphi Corporation filed for Chapter 11 bankruptcy reorganization on October 8, 2005. So far the District has received all monies due from Delphi. It is too early to predict the financial impact of this action on the District.

The District became a "guarantee" district in 2000. A guarantee district receives additional State Foundation aid on top of the current year's calculated amount to bring the district up to the 1998 funding level. The current year's calculated amount of State aid is based on the number of pupils times the per pupil amount times the State share. The State share is determined by the property valuation of the District. A higher property valuation equals a lower State share. Because the District student population has declined since 1999 and the property value of the District has risen, the calculated amount of State aid has also declined. The Ohio Department of Education estimates that the District will receive \$609,800 in additional State aid in 2007 due to the guarantee. The State legislature decides with every biennial budget whether they will continue the guarantee.

In March 1997, the Ohio Supreme Court found the State of Ohio's educational funding system to be unconstitutional. The system was found to be neither "adequate" nor "equitable." The Ohio Supreme Court reaffirmed its earlier decision on December 11, 2002. The Ohio General Assembly was directed to enact a school funding mechanism that is thorough and efficient. At this time, the District is unable to determine what effect a "fixed" State educational funding system will have on its finances.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

On a positive note, local business ATD Corporation recently sold its fabrication facility in a foreclosure sale. All delinquent real estate taxes have been paid. The Trumbull County Auditor estimates the District's share of the recovered delinquency to be about \$735,400 or a net of approximately \$588,350 after fees. This additional revenue should not be treated as a windfall to expand programs but as an opportunity to extend the positive time horizon on the five-year forecast.

The District's tax base continued to grow over the past year. The total assessed value went from \$140.1 million in 2005 to \$153.9 million in 2006, an increase of approximately 9.8 percent. Residential property and farms contribute over 78 percent of the District's valuation.

The District administration realizes that prudent management will be necessary to continue to provide the resources necessary to meet student needs while diligently controlling the escalating expenditures. In this regard, the Board of Education and administration closely monitor the District's revenue and expenditures in accordance with its five-year forecast.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Teri Andrika, Treasurer, Mathews Local School District, 4434-B Warren Sharon Road, Vienna, Ohio, 44473-9644.

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 1,947,693	\$ -	\$ 1,947,693
Receivables:			
Taxes	5,646,895	-	5,646,895
Accounts	2,860	82	2,942
Intergovernmental	-	9,553	9,553
Accrued interest	3,678	-	3,678
Prepayments	34,137	-	34,137
Materials and supplies inventory	29,298	4,092	33,390
Capital assets:			
Land	363,767	-	363,767
Depreciable capital assets, net	2,885,209	11,584	2,896,793
Total capital assets, net.	<u>3,248,976</u>	<u>11,584</u>	<u>3,260,560</u>
Total assets	<u>10,913,537</u>	<u>25,311</u>	<u>10,938,848</u>
Liabilities:			
Accounts payable.	62,054	-	62,054
Accrued wages and benefits	662,909	19,200	682,109
Pension obligation payable.	183,796	13,228	197,024
Intergovernmental payable	40,613	1,061	41,674
Deferred revenue	4,627,180	-	4,627,180
Long-term liabilities:			
Due within one year.	180,340	-	180,340
Due in more than one year	1,261,031	52,930	1,313,961
Total liabilities	<u>7,017,923</u>	<u>86,419</u>	<u>7,104,342</u>
Net Assets:			
Invested in capital assets, net of related debt.	3,108,488	11,584	3,120,072
Restricted for:			
Capital projects	37,352	-	37,352
State funded programs.	2,472	-	2,472
Student activities.	3,920	-	3,920
Other purposes	28,617	-	28,617
Unrestricted (deficit)	<u>714,765</u>	<u>(72,692)</u>	<u>642,073</u>
Total net assets (deficit)	<u>\$ 3,895,614</u>	<u>\$ (61,108)</u>	<u>\$ 3,834,506</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 4,121,178	\$ 285,540	\$ 31,098	\$ -
Special	666,005	-	198,387	-
Vocational	73,592	-	-	-
Other.	287,776	-	12,973	-
Support services:				
Pupil.	564,654	-	6,118	-
Instructional staff	290,179	9,992	6,193	-
Board of education	80,455	-	-	-
Administration.	700,570	-	-	-
Fiscal.	289,918	-	-	-
Operations and maintenance	937,804	-	-	-
Pupil transportation.	555,877	5,927	-	-
Central	121,673	-	17,000	-
Operation of non-instructional services:				
Other non-instructional services	4,535	-	-	-
Extracurricular activities.	181,715	49,138	-	270,000
Interest and fiscal charges	4,063	-	-	-
Total governmental activities	<u>8,879,994</u>	<u>350,597</u>	<u>271,769</u>	<u>270,000</u>
Business-type activities:				
Food service	332,378	200,941	98,749	-
Uniform school supplies.	22,077	19,037	-	-
Total business-type activities	<u>354,455</u>	<u>219,978</u>	<u>98,749</u>	<u>-</u>
Totals	<u>\$ 9,234,449</u>	<u>\$ 570,575</u>	<u>\$ 370,518</u>	<u>\$ 270,000</u>

General Revenues:

Property taxes levied for:

- General purposes
- Capital projects
- Grants and entitlements not restricted to specific programs.
- Investment earnings
- Revenue in lieu of taxes.
- Miscellaneous
- Total general revenues.

Transfers.

Total general revenues and transfers

Change in net assets

Net assets (deficit) at beginning of year.

Net assets (deficit) at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (3,804,540)	\$ -	\$ (3,804,540)
(467,618)	-	(467,618)
(73,592)	-	(73,592)
(274,803)	-	(274,803)
(558,536)	-	(558,536)
(273,994)	-	(273,994)
(80,455)	-	(80,455)
(700,570)	-	(700,570)
(289,918)	-	(289,918)
(937,804)	-	(937,804)
(549,950)	-	(549,950)
(104,673)	-	(104,673)
(4,535)	-	(4,535)
137,423	-	137,423
(4,063)	-	(4,063)
<u>(7,987,628)</u>	<u>-</u>	<u>(7,987,628)</u>
-	(32,688)	(32,688)
-	(3,040)	(3,040)
-	<u>(35,728)</u>	<u>(35,728)</u>
<u>(7,987,628)</u>	<u>(35,728)</u>	<u>(8,023,356)</u>
4,460,831	-	4,460,831
158,185	-	158,185
3,412,331	-	3,412,331
85,133	6	85,139
43,433	-	43,433
100,196	-	100,196
<u>8,260,109</u>	<u>6</u>	<u>8,260,115</u>
<u>(7,256)</u>	<u>7,256</u>	<u>-</u>
<u>8,252,853</u>	<u>7,262</u>	<u>8,260,115</u>
265,225	(28,466)	236,759
<u>3,630,389</u>	<u>(32,642)</u>	<u>3,597,747</u>
<u>\$ 3,895,614</u>	<u>\$ (61,108)</u>	<u>\$ 3,834,506</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,825,620	\$ 93,456	\$ 1,919,076
Receivables:			
Taxes	5,454,471	192,424	5,646,895
Accounts	2,860	-	2,860
Accrued interest	3,678	-	3,678
Prepayments	34,137	-	34,137
Materials and supplies inventory	29,298	-	29,298
Restricted assets:			
Equity in pooled cash and cash equivalents	28,617	-	28,617
Total assets	<u>\$ 7,378,681</u>	<u>\$ 285,880</u>	<u>\$ 7,664,561</u>
Liabilities:			
Accounts payable	\$ 60,638	\$ 1,416	\$ 62,054
Accrued wages and benefits	660,443	2,466	662,909
Compensated absences payable	179,784	27,969	207,753
Pension obligation payable.	180,778	3,018	183,796
Intergovernmental payable.	39,425	1,188	40,613
Deferred revenue.	5,473,911	191,613	5,665,524
Total liabilities	<u>6,594,979</u>	<u>227,670</u>	<u>6,822,649</u>
Fund Balances:			
Reserved for encumbrances	111,664	5,914	117,578
Reserved for materials and supplies inventory.	29,298	-	29,298
Reserved for prepayments	34,137	-	34,137
Reserved for property tax unavailable for appropriation	22,989	811	23,800
Reserved for school bus purchases.	16,575	-	16,575
Reserved for budget stabilization	12,042	-	12,042
Unreserved (deficit), undesignated, reported in:			
General fund	556,997	-	556,997
Special revenue funds.	-	53,953	53,953
Capital projects funds.	-	(2,468)	(2,468)
Total fund balances	<u>783,702</u>	<u>58,210</u>	<u>841,912</u>
Total liabilities and fund balances	<u>\$ 7,378,681</u>	<u>\$ 285,880</u>	<u>\$ 7,664,561</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 841,912
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,248,976
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 1,038,344	
Total		1,038,344
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,093,130	
Asbestos loan payable	78,488	
Capital lease obligation	62,000	
Total		(1,233,618)
Net assets of governmental activities		\$ 3,895,614

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,395,655	\$ 155,404	\$ 4,551,059
Tuition.	238,966	-	238,966
Transportation fees.	3,037	-	3,037
Earnings on investments.	85,133	-	85,133
Extracurricular.	-	91,577	91,577
Classroom materials and fees.	11,227	-	11,227
Other local revenues.	146,162	3,257	149,419
Intergovernmental - State.	3,370,917	58,626	3,429,543
Intergovernmental - Federal	19,961	234,596	254,557
Total revenue	<u>8,271,058</u>	<u>543,460</u>	<u>8,814,518</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,051,005	124,990	4,175,995
Special.	463,886	198,497	662,383
Vocational.	66,246	-	66,246
Other.	274,853	12,923	287,776
Support services:			
Pupil.	548,719	6,100	554,819
Instructional staff	261,460	17,800	279,260
Board of education	80,455	-	80,455
Administration.	676,629	-	676,629
Fiscal	275,137	2,717	277,854
Operations and maintenance.	840,138	68,145	908,283
Pupil transportation	506,261	6,618	512,879
Central.	94,693	23,101	117,794
Operation of non-instructional services:			
Other non-instructional services.	-	4,535	4,535
Extracurricular activities.	-	181,879	181,879
Debt service:			
Principal retirement	-	71,961	71,961
Interest and fiscal charges	-	4,063	4,063
Total expenditures	<u>8,139,482</u>	<u>723,329</u>	<u>8,862,811</u>
Excess of revenues over (under) expenditures	<u>131,576</u>	<u>(179,869)</u>	<u>(48,293)</u>
Other financing sources (uses):			
Transfers in	-	183,336	183,336
Transfers (out).	(190,592)	-	(190,592)
Total other financing sources (uses)	<u>(190,592)</u>	<u>183,336</u>	<u>(7,256)</u>
Net change in fund balances	(59,016)	3,467	(55,549)
Fund balances at beginning of year.	<u>842,718</u>	<u>54,743</u>	<u>897,461</u>
Fund balances at end of year.	<u>\$ 783,702</u>	<u>\$ 58,210</u>	<u>\$ 841,912</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (55,549)

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

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

Capital asset additions	\$ 357,460	
Current year depreciation	(172,848)	
Total		184,612

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

Capital asset disposals	(61,750)	
Accumulated depreciation on disposals	58,730	
Total		(3,020)

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

Taxes	67,957	
Total		67,957

Repayment of loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

71,961

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

(736)

Change in net assets of governmental activities \$ 265,225

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 4,253,442	\$ 4,322,313	\$ 4,380,262	\$ 57,949
Tuition	232,048	235,805	238,966	3,161
Transportation fees	2,948	2,996	3,037	41
Earnings on investments	88,536	89,970	91,176	1,206
Classroom materials and fees	10,855	11,031	11,179	148
Other local revenues	49,426	50,226	50,899	673
Intergovernmental - State	3,273,319	3,326,320	3,370,917	44,597
Intergovernmental - Federal	19,383	19,697	19,961	264
Total revenue	<u>7,929,957</u>	<u>8,058,358</u>	<u>8,166,397</u>	<u>108,039</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,998,541	3,918,317	3,880,850	37,467
Special	518,610	487,057	465,807	21,250
Vocational	77,410	76,570	75,093	1,477
Other	178,597	250,512	249,587	925
Support services:				
Pupil	615,962	560,482	551,374	9,108
Instructional staff	265,698	262,272	257,596	4,676
Board of education	100,062	83,442	82,443	999
Administration	629,944	683,819	677,281	6,538
Fiscal	288,127	282,394	276,911	5,483
Operations and maintenance	945,254	871,476	854,082	17,394
Pupil transportation	642,428	585,361	567,720	17,641
Central	103,776	100,243	94,851	5,392
Extracurricular activities	10,000	-	-	-
Total expenditures	<u>8,374,409</u>	<u>8,161,945</u>	<u>8,033,595</u>	<u>128,350</u>
Excess of revenues over (under) expenditures	<u>(444,452)</u>	<u>(103,587)</u>	<u>132,802</u>	<u>236,389</u>
Other financing sources (uses):				
Refund of prior year expenditure	86,192	87,588	88,762	1,174
Transfers (out)	<u>(227,000)</u>	<u>(224,663)</u>	<u>(217,290)</u>	<u>7,373</u>
Total other financing sources (uses)	<u>(140,808)</u>	<u>(137,075)</u>	<u>(128,528)</u>	<u>8,547</u>
Net change in fund balance	(585,260)	(240,662)	4,274	244,936
Fund balance at beginning of year	1,619,073	1,619,073	1,619,073	-
Prior year encumbrances appropriated	61,074	61,074	61,074	-
Fund balance at end of year	<u>\$ 1,094,887</u>	<u>\$ 1,439,485</u>	<u>\$ 1,684,421</u>	<u>\$ 244,936</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-Type Activities
	Enterprise Funds
Assets:	
Current assets:	
Receivables:	
Accounts	\$ 82
Intergovernmental	9,553
Materials and supplies inventory	4,092
	13,727
Total current assets	
Noncurrent assets:	
Capital assets, net	11,584
	25,311
Total assets	
Liabilities:	
Current liabilities:	
Accrued wages and benefits	19,200
Pension obligation payable.	13,228
Intergovernmental payable	1,061
	33,489
Total current liabilities	
Long-term liabilities:	
Compensated absences.	52,930
	86,419
Total liabilities.	
Net assets:	
Invested in capital assets	11,584
Unrestricted (deficit)	(72,692)
	(61,108)
Total net assets (deficit)	
	\$ (61,108)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities
	Enterprise Funds
Operating revenues:	
Tuition and fees.	\$ 19,037
Sales/charges for services.	200,941
	219,978
Operating expenses:	
Personal services.	182,974
Purchased services.	11,631
Materials and supplies	49,992
Cost of sales	108,943
Depreciation	95
Other.	628
	354,263
Total operating expenses.	354,263
Operating loss	(134,285)
Nonoperating revenues (expenses):	
Federal donated commodities	26,108
Interest revenue	6
Loss on disposal of capital assets.	(192)
Grants and subsidies.	72,641
	98,563
Total nonoperating revenues (expenses)	98,563
Loss before transfers.	(35,722)
Transfers in	7,256
Change in net assets	(28,466)
Net assets (deficit) at beginning of year	(32,642)
Net assets (deficit) at end of year.	\$ (61,108)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities
	Enterprise Funds
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 18,969
Cash received from sales/charges for services.	200,943
Cash payments for personal services.	(155,550)
Cash payments for purchased services	(11,631)
Cash payments for materials and supplies	(131,020)
Cash payments for other expenses	(678)
Net cash used in operating activities	(78,967)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies	72,104
Cash received from transfers in	7,256
Net cash provided by noncapital financing activities.	79,360
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(399)
Net cash used in capital and related financing activities.	(399)
Cash flows from investing activities:	
Interest received	6
Net cash provided by investing activities	6
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year . . .	-
Cash and cash equivalents at end of year.	\$ -
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (134,285)
Adjustments:	
Depreciation.	95
Federal donated commodities	26,108
Changes in assets and liabilities:	
Decrease in materials and supplies inventory	1,807
Increase in accounts receivable	(66)
Increase in accrued wages and benefits.	4,906
Decrease in intergovernmental payable	(342)
Increase in compensated absences payable.	22,566
Increase in pension obligation payable	244
Net cash used in operating activities	\$ (78,967)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	42,432
Receivables:		
Accounts		<u>150</u>
Total assets.	\$	<u><u>42,582</u></u>
Liabilities:		
Accounts payable.	\$	1,642
Due to students		<u>40,940</u>
Total liabilities	\$	<u><u>42,582</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Mathews Local School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and federal guidelines. This Board of Education controls the District's four instructional/support facilities staffed by 45 classified employees, and 73 certified full-time who provide services to 933 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Trumbull Career and Technical Center

The Trumbull Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 15 participating school district's elected boards, which possesses its own budgeting and taxing authority. Financial information may be obtained by contacting the Treasurer of the Trumbull Career and Technical Center, 528 Educational Highway, Warren, Ohio 44483.

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 the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county who must be employed by a participating school district, the fiscal agent or NEOMIN. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

Northeast Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the Districts. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a 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 Governing Board. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

Northeast Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for 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 every year. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 105 Youngstown, Ohio 44512-7019.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Region 12 Professional Development Center (the "Center")

The Center is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improving instructional programs.

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the OSP to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Trumbull County Schools Employee Insurance and Benefits Consortium

The District participates in the Trumbull County Schools Employee Insurance and Benefits Consortium. This is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds are classified as either enterprise or internal service. The District has no internal service funds. The following are the District's proprietary funds:

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

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

Uniform School Supplies Fund - This fund accounts for the purchase and sale of school supplies for use in the District. Profits derived from such sales are used for school purposes or activities connected with the school.

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and 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 or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program 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 and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor 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 funds 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 a 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 financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's enterprise funds are sales for food services and charges for services for uniform school supplies. Operating expenses for the enterprise funds are personnel costs and purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

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

Deferred Revenue - 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2006 amounted to \$85,133 which includes \$6,021 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$300. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	99 years	N/A
Furniture/equipment	5 - 20 years	20 years
Vehicles	10 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, net assets restricted by enabling legislation were \$32,891 in the statement of net assets.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be restricted for school bus purchases. See Note 16 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	
Education Management Information Systems	\$ 40
Ohio Reads	48
Poverty Aid	152
Title VI	17
Title II-A	160
<u>Nonmajor Proprietary Funds</u>	
Food service	61,190

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,041,111. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$803,225 of the District’s bank balance of \$1,049,007 was exposed to custodial risk as discussed below, while \$245,782 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	<u>\$ 949,014</u>	<u>\$ 949,014</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	<u>\$ 949,014</u>	<u>100.00%</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,041,111
Investments	<u>949,014</u>
Total	<u>\$ 1,990,125</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,947,693
Agency fund	<u>42,432</u>
Total	<u>\$ 1,990,125</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 183,336
Enterprise funds	7,256

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 authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, only transfers between governmental funds and enterprise funds are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$22,989 in the general fund and \$811 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$7,596 in the general fund and \$264 in the Permanent Improvement capital projects fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 124,670,480	88.95	\$ 138,610,510	90.09
Public Utility Personal	6,074,300	4.34	5,656,270	3.68
Tangible Personal Property	<u>9,404,044</u>	<u>6.71</u>	<u>9,606,040</u>	<u>6.23</u>
Total	<u>\$ 140,148,824</u>	<u>100.00</u>	<u>\$ 153,872,820</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 55.26		 \$ 54.46	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes - current and delinquent	\$ 5,646,895
Accounts	2,860
Accrued interest	3,678

Business-type Activities

Accounts	82
Intergovernmental	<u>9,553</u>
Total receivables	<u>\$ 5,663,068</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2006, was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 363,767	\$ -	\$ -	\$ 363,767
Total capital assets, not being depreciated	<u>363,767</u>	<u>-</u>	<u>-</u>	<u>363,767</u>
Capital assets, being depreciated:				
Land improvements	667,382	13,436	-	680,818
Building/improvements	2,324,599	270,000	-	2,594,599
Furniture/equipment	1,414,341	74,024	(61,750)	1,426,615
Vehicles	<u>634,418</u>	<u>-</u>	<u>-</u>	<u>634,418</u>
Total capital assets, being depreciated	<u>5,040,740</u>	<u>357,460</u>	<u>(61,750)</u>	<u>5,336,450</u>
Less: accumulated depreciation				
Land improvements	(319,624)	(29,286)	-	(348,910)
Building/improvements	(671,017)	(23,231)	-	(694,248)
Furniture/equipment	(927,640)	(75,170)	58,730	(944,080)
Vehicles	<u>(418,842)</u>	<u>(45,161)</u>	<u>-</u>	<u>(464,003)</u>
Total accumulated depreciation	<u>(2,337,123)</u>	<u>(172,848)</u>	<u>58,730</u>	<u>(2,451,241)</u>
Governmental activities capital assets, net	<u>\$ 3,067,384</u>	<u>\$ 184,612</u>	<u>\$ (3,020)</u>	<u>\$ 3,248,976</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 74,386	\$ 399	\$ (7,047)	\$ 67,738
Less: accumulated depreciation	<u>(62,914)</u>	<u>(95)</u>	<u>6,855</u>	<u>(56,154)</u>
Business-type activities capital assets, net	<u>\$ 11,472</u>	<u>\$ 304</u>	<u>\$ (192)</u>	<u>\$ 11,584</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 62,882
Special	3,818
Vocational	4,993
Support Services:	
Pupil	2,125
Instructional staff	14,502
Administration	4,730
Fiscal	1,095
Operations and maintenance	24,090
Pupil transportation	43,984
Central	6,133
Extracurricular	<u>4,496</u>
Total depreciation expense	<u>\$ 172,848</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of a bus garage. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of a bus garage building have been capitalized in the amount of \$281,000. This amount represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$12,773, leaving a current book value of \$268,227.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2006 fiscal year totaled \$59,000 and \$4,063, respectively. These amounts are reported as debt service payments in the permanent improvement nonmajor capital projects fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2007	\$ 63,369
Total minimum lease payment	63,369
Less: amount representing interest	<u>(1,369)</u>
Present value of minimum lease payments	<u>\$ 62,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS

A. The changes in the District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>	<u>Due in</u>
					<u>One Year</u>
<u>Governmental-Type Activities</u>					
1993 EPA Asbestos Loan 0%	\$ 91,449	\$ -	\$ (12,961)	\$ 78,488	\$ 12,961
Capital leases	121,000	-	(59,000)	62,000	62,000
Compensated absences	<u>1,146,922</u>	<u>200,998</u>	<u>(47,037)</u>	<u>1,300,883</u>	<u>105,379</u>
Total governmental long-term activities	<u>\$ 1,359,371</u>	<u>\$ 200,998</u>	<u>\$ (118,998)</u>	<u>\$ 1,441,371</u>	<u>\$ 180,340</u>
<u>Business-Type Activities</u>					
Compensated absences	<u>\$ 30,364</u>	<u>\$ 22,566</u>	<u>\$ -</u>	<u>\$ 52,930</u>	<u>\$ -</u>

EPA Asbestos Loan - On April 16, 1993, Mathews Local School District obtained a loan in the amount of \$233,300 for the purpose of providing asbestos removal for the District. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2013. The loan will be paid from the permanent improvement fund.

Capital leases will be paid from the permanent improvement fund and compensated absences will be paid by the terminations benefits fund.

Principal requirements to retire general obligation debt outstanding at June 30, 2006, are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>
2007	\$ 12,961
2008	12,961
2009	12,961
2010	12,961
2011	12,961
2012-2013	<u>13,683</u>
 Total	 <u>\$ 78,488</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$13,848,554 and an unvoted debt margin of \$153,873.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. The District pays this annual premium to the OSP. Coverages provided with Indiana Insurance and through the Ohio School Plan is as follows:

<u>Coverage</u>	<u>Amount</u>
Coverage provided by Indiana Insurance:	
Building and contents-replacement cost (\$1,000 deductible)	\$17,040,970
Money and securities/in and out (\$500 deductible)	10,000
Automobile liability (\$500 deductible on comprehensive) (\$500 deductible on collision)	2,000,000
Auto medical payments	5,000
Uninsured/under insured motorists	250,000
Coverage provided by Ace/Temple Re-Insurance:	
General liability	
Per occurrence (no deductible)	1,000,000
Total per year	3,000,000
Employers liability (no deductible)	
Per occurrence	1,000,000
Educational legal liability	
Per occurrence (\$2,500 deductible)	1,000,000
Total per year	2,000,000

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

B. Workers' Compensation

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A). 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 participants is calculated as one experience and a common premium rate is applied to all participants in the group. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Total savings are then calculated and each participants performance is compare to the overall savings percentage of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

For fiscal 2006, the District contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. Mathews Local School Districts pays a monthly contribution, which is a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$113,752, \$114,481, and \$96,872; 42.54 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$65,366 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 – 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$507,134, \$496,568 and \$493,760; 83.67 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$82,829 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$16 made by the District and \$142 made by the plan members.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$39,010 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$58,594 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 4,274
Net adjustment for revenue accruals	104,661
Net adjustment for expenditure accruals	(275,703)
Net adjustment for other sources/uses	(62,064)
Adjustment for encumbrances	169,816
GAAP basis	\$ (59,016)

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ (391,959)	\$ -	\$ 12,042
Current year set-aside requirement	137,380	137,380	-
Current year offsets	-	(176,310)	-
Current year qualifying disbursements	<u>(112,834)</u>	<u>(99,281)</u>	<u>-</u>
Total	<u>\$ (367,413)</u>	<u>\$ (138,211)</u>	<u>\$ 12,042</u>
Balance carried forward to FY 2007	<u>\$ (367,413)</u>	<u>\$ -</u>	<u>\$ 12,042</u>

The District had offsets and qualifying disbursements during the year that reduced the instructional materials and capital maintenance set-aside amounts below zero. The negative amount for the instructional materials set-aside is being carried forward to reduce the set-aside requirements of future years, but the negative amount for the capital maintenance set-aside is not allowed to be carried forward.

A schedule of the restricted assets at June 30, 2006 as follows:

Amount restricted for budget stabilization	\$ 12,042
Amount restricted for school bus purchases	<u>16,575</u>
Total restricted assets	<u>\$ 28,617</u>

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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*

Mathews Local School District
Trumbull County
4434-B Warren-Sharon Road
Vienna, OH 44473

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mathews Local School District, Trumbull County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 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 we must report under *Government Auditing Standards*.

Mathews 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 audit committee, 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

September 25, 2007



Mary Taylor, CPA
Auditor of State

MATHEWS 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
NOVEMBER 20, 2007**