

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**AUDITED BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2003***



**Auditor of State
Betty Montgomery**

Board of Education
West Branch Local School District
Beloit, Ohio

We have reviewed the Independent Auditor's Report of the West Branch Local School District, Mahoning County, prepared by Nagel, Weigand & Company, LLC, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 17, 2004

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**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
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ELECTED OFFICIALS

<u>Elected Official</u>	<u>Title</u>	<u>Term of Office</u>
<u>Board of Education:</u>		
John Wallace	President	1/1/02-12/31/05
Samuel Martig	Vice President	1/1/00-12/31/03
Terry Criss	Member	1/1/02-12/31/05
Kim Burkhart	Member	1/1/00-12/31/03
Larry Romigh	Member	1/1/02-12/31/05

Statutory Legal Counsel:

Kenneth J. Cardinal
Mahoning County Prosecutor
120 Market Street
Youngstown, Ohio 44503

Official Address:

West Branch Local School District
14277 Main Street
Beloit, Ohio 44609

(A) William's & Case Insurance Agency, Inc.

<u>Surety</u>	<u>Amount</u>	<u>Period</u>
(A)	\$20,000	1/12/03-1/12/06

**WEST BRANCH LOCAL SCHOOL DISTRICT
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ADMINISTRATIVE PERSONNEL

<u>Name</u>	<u>Title</u>	<u>Term of Office or Contract Period</u>
Louis Ramunno	Superintendent	8/1/02 - 7/31/04
Karen Elsner	Treasurer	1/1/01 - 1/1/05

(A) William's & Case Insurance Agency, Inc.

<u>Surety</u>	<u>Amount</u>	<u>Period</u>
(A)	\$20,000	1/12/03-1/12/06
(A)	\$50,000	1/6/01-1/6/05

WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
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INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund:

General Fund

Special Revenue Funds:

Food Services Fund
Uniform School Supplies Fund
Adult Education
Emergency Levy
Student Activities Athletic Fund
Phonics Demonstration Project Grant
Disadvantaged Pupil Program Fund
Teacher Development Fund
Management Information System Fund
Title VI-B - Special Education: Assistance To States For
Education Of Handicapped Children Fund
Elementary And Secondary Education Act Block Grant:
Title I - Special Educational Needs Of Disadvantaged
Children Fund
Elementary And Secondary Education Act Block Grant:
Title VI - Consolidation Of Federal Programs
For Elementary And Secondary Education Fund
Drug Free Schools Grant Fund
Auxiliary Services Fund
Conflict Management Grant Fund
Schoolnet Grant
Textbook Subsidy Fund
Staff Sunshine Fund
Staff Fund/JH
Staff Fund/KX
Staff Fund/MR

Capital Projects Funds:

Permanent Improvement Fund
Schoolnet Plus
Technology Equity Grant
Ohio School Facilities Grant

**WEST BRANCH LOCAL SCHOOL DISTRICT
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INDEX OF FUNDS
(Continued)

FIDUCIARY FUND TYPES:

Private - Purpose Trust:

West Trust Fund
Tucker Scholarship Fund
Humeniuk Scholarship Fund
Elva Boyer Scholarship Fund

Agency Fund:

Student Managed Activity Funds

Nagel, Weigand & Company, LLC

Independent Auditor's Report

Board of Education
West Branch Local School District
Beloit, Ohio 44609

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the West Branch Local School District, Mahoning County as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the district activities, each major fund and the aggregate remaining fund information of the West Branch Local School District, Mahoning County, Ohio as of June 30, 2003, and the results of its operations and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the West Branch Local School District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 14, 2004

Nagel, Weigand & Company, LLC

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the West Branch 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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities decreased \$3,099,560 which represents a 6.72% decrease from 2002.
- General revenues accounted for \$15,978,289 in revenue or 83.76% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,098,016 or 16.24% of total revenues of \$19,076,305.
- The District had \$22,175,865 in expenses related to governmental activities; \$3,098,016 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 \$15,978,289 were not adequate to provide for these programs.
- The District's major governmental funds had \$31,474,342 in revenues and other financing sources and \$33,243,852 in expenditures and other financing uses. During fiscal 2003, the fund balance of the major governmental funds decreased \$1,769,510 from \$20,151,294 to \$18,381,784.

Using the Basic Financial Statements

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

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

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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *non-fiduciary assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities <u>2003</u>
<u>Assets</u>	
Current and other assets	\$ 38,892,225
Capital assets	<u>20,403,116</u>
Total assets	<u>59,295,341</u>
<u>Liabilities</u>	
Current liabilities	6,848,616
Long-term liabilities	<u>9,454,300</u>
Total liabilities	<u>16,302,916</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	11,778,569
Restricted	28,635,031
Unrestricted	<u>2,578,825</u>
Total net assets	<u>\$ 42,992,425</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$42,992,425.

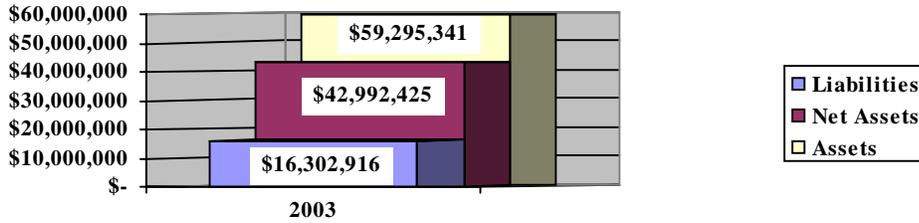
At year-end, capital assets represented 34.40% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, textbooks and library books, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$11,778,569. 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, \$28,635,031, represents resources that are subject to external restriction on how they may be used. Of the restricted net assets \$27,787,472 is restricted for capital projects.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,699,838
Operating grants and contributions	1,367,161
Capital grants and contributions	31,017
General revenues:	
Property taxes	4,110,173
Grants and entitlements	11,165,570
Investment earnings	544,798
Other	157,748
Total revenues	\$19,076,305

**WEST BRANCH LOCAL SCHOOL DISTRICT
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Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 8,214,689
Special	1,552,296
Vocational	491,096
Other	10,386
Support services:	
Pupil	685,511
Instructional staff	863,761
Board of education	28,097
Administration	1,454,897
Fiscal	376,888
Operations and maintenance	4,825,477
Pupil transportation	1,469,258
Central	88,729
Operations of non-instructional services	262,341
Food service operations	831,438
Extracurricular activities	587,364
Interest and fiscal charges	<u>433,637</u>
Total expenses	<u>22,175,865</u>
Decrease in net assets	<u><u>\$ (3,099,560)</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$3,099,560. Total governmental expenses of \$22,175,865 were offset by program revenues of \$3,098,016 and general revenues of \$15,978,289. Program revenues supported 13.97% 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 80.07% of total governmental revenue. Real estate property is reappraised every six years.

The District is located in Mahoning, Columbiana and Portage Counties and as a result is continually in a sexennial or triennial update. With the increase in property valuation, the District is now operating at the 20 mill floor which is the state minimum required property tax funding for a school district's operations. Due to this, the District is able to receive the full advantage of property tax valuation increases.

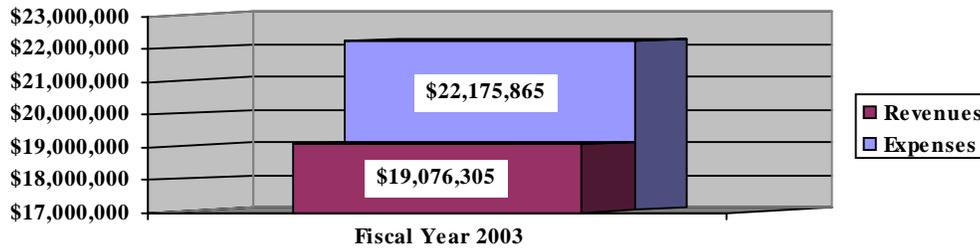
The District's financial condition has improved in recent years, primarily due to increased financial support from the state. State support has increased by 3% over the last two years. Unfortunately, due to enrollment declines these increases are not projected for the future. The District is projecting a decrease in state funding for future years.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

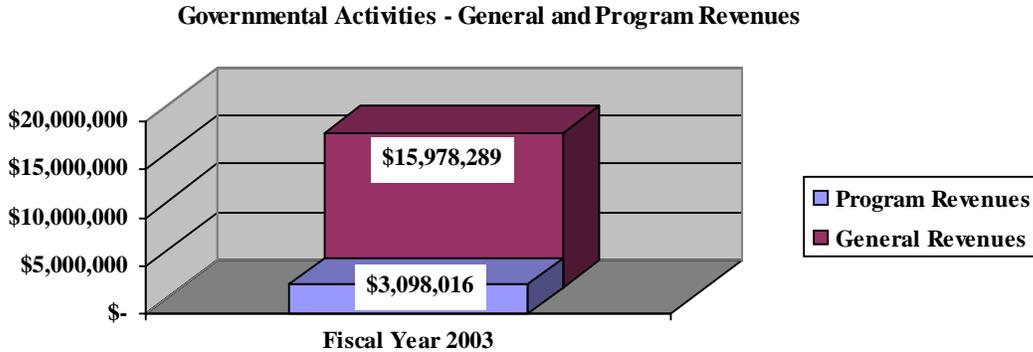
	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 8,214,689	\$ 7,175,618
Special	1,552,296	939,427
Vocational	491,096	488,702
Other	10,386	10,386
Support services:		
Pupil	685,511	671,614
Instructional staff	863,761	740,697
Board of education	28,097	28,097
Administration	1,454,897	1,335,671
Fiscal	376,888	376,888
Operations and maintenance	4,825,477	4,811,040
Pupil transportation	1,469,258	1,468,827
Central	88,729	88,729
Operations of non-instructional services	262,341	103,443
Food service operations	831,438	17,077
Extracurricular activities	587,364	387,996
Interest and fiscal charges	<u>433,637</u>	<u>433,637</u>
Total expenses	<u>\$22,175,865</u>	<u>\$19,077,849</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 83.88% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.02%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$19,798,925, which is lower than last year's total of \$21,364,002. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Fund Balance <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ 2,042,469	\$ 1,801,405	\$ 241,064
Classroom Facilities	16,409,951	18,349,889	(1,939,938)
Other Governmental	<u>1,346,505</u>	<u>1,212,708</u>	<u>133,797</u>
Total	<u>\$ 19,798,925</u>	<u>\$ 21,364,002</u>	<u>\$ (1,565,077)</u>

General Fund

The District's general fund balance increased by \$170,428 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>2003</u>	<u>Restated</u> <u>2002</u>	<u>Percentage</u> <u>Change</u>
	<u>Amount</u>	<u>Amount</u>	
<u>Revenues</u>			
Taxes	\$ 3,341,192	\$ 3,474,746	(3.84) %
Tuition	849,472	877,743	(3.22) %
Earnings on investments	145,011	129,550	11.93 %
Intergovernmental	11,061,369	10,687,109	3.50 %
Other revenues	<u>219,286</u>	<u>112,187</u>	95.46 %
Total	<u>\$ 15,616,330</u>	<u>\$15,281,335</u>	2.19 %
<u>Expenditures</u>			
Instruction	\$ 9,091,631	\$ 8,861,823	2.59 %
Support services	5,790,897	5,993,198	(3.38) %
Operation of non-instructional services	72,625	81,266	(10.63) %
Extracurricular activities	297,290	293,398	1.33 %
Facilities acquisition and construction	<u>2,750</u>	<u>3,250</u>	(15.38) %
Total	<u>\$ 15,255,193</u>	<u>\$15,232,935</u>	0.15 %

Classroom Facilities

During fiscal year 2003, the District's classroom facilities fund balance decreased by \$1,939,938 which is due to increased construction costs associated with buildings. The table that follows assists in illustrating the financial activities and fund balance of the classroom facilities fund.

	<u>2003</u>	<u>2002</u>	<u>Increase</u> <u>(Decrease)</u>
	<u>Amount</u>	<u>Amount</u>	
<u>Revenues</u>			
Earnings on investments	\$ 197,442	\$ 751,427	\$ (553,985)
Intergovernmental	15,665,840	9,763,208	5,902,632
Other revenue	<u>1,766</u>	<u>-</u>	<u>1,766</u>
Total	<u>\$ 15,865,048</u>	<u>\$ 10,514,635</u>	<u>\$ 5,350,413</u>
<u>Expenditures</u>			
Instruction	\$ 91,805	\$ -	\$ 91,805
Support services	85,383	64,735	20,648
Facilities acquisition and construction	17,627,798	2,102,755	15,525,043
Debt service principle	<u>-</u>	<u>8,950,000</u>	<u>(8,950,000)</u>
Total	<u>\$ 17,804,986</u>	<u>\$ 11,117,490</u>	<u>\$ 6,687,496</u>

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.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

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During the course of fiscal year 2003, the District amended its general fund budget. For the general fund, actual and final budgeted revenues and other financing sources of \$15,835,859 were \$21,056 higher than the original budgeted revenues estimate of \$15,814,803.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$16,078,630 were increased to \$16,085,571 in the final budget. Actual expenditures plus other financing uses for fiscal year 2003 were \$15,889,426, which is less than the final budgeted amount by \$196,145.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$20,403,116 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, textbooks and library books, and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 683,200	\$ 683,200
Land improvements	803,107	875,778
Building and improvements	952,029	1,016,365
Furniture and equipment	696,277	967,278
Vehicles	659,396	858,548
Textbooks and library books	51,293	153,879
Construction in progress	<u>16,557,814</u>	<u>2,098,311</u>
Total	<u>\$ 20,403,116</u>	<u>\$ 6,653,359</u>

The primary increase occurred in construction in progress, which includes the OSFC project for multiple buildings. Total additions to capital assets for 2003 were \$14,459,503 and total disposals were \$25,150 (net of accumulated depreciation). The overall increase in capital assets of \$13,749,757 is primarily due to the construction project.

Debt Administration

At June 30, 2003, the District had \$8,624,547 in general obligation bonds outstanding. Of this total, \$280,000 is due within one year and \$8,344,547 is due within greater than one year. The following table summarizes the bonds outstanding.

	Outstanding Debt, at Year End	
	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
General obligation bonds:		
School improvement	<u>\$ 8,624,547</u>	<u>\$ 8,862,521</u>
Total	<u>\$ 8,624,547</u>	<u>\$ 8,862,521</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

On June 15, 2001, the District issued general obligation bonds for school improvements. The general obligation bonds mature in fiscal year 2023.

In 2000, the District passed a 4 mill bond issue and a .5 maintenance levy providing for new facilities, improvements and additions to the District's buildings. The general obligation bonds are scheduled to mature in fiscal year 2023 and bear an all-in-true interest rate of 5.1%. Payment of principal and interest on the bonds is being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$24,905,407 with an unvoted debt margin of \$178,120. The District maintains a Standard & Poor's AAA bond rating.

For the Future

As the preceding information shows, the District relies heavily upon grants, entitlements, and property taxes. However, the future financial stability of the District is not without challenges.

The first challenge, with only modest growth in the District and reduced state funding, is the rapidly diminishing cash balance. There will have to be cuts in operating expenditures to make up this shortfall or ask for dramatically more money to operate. The state recognizes the low level of millage in the District and provides Charge-Off Supplement (Gap) aid. Additional millage would have to first compensate for approximately 4.5 mills of Charge-Off Supplement before more operating dollars will be realized.

The next challenge facing the District is the rapid decline in enrollment over the past several years, especially if these declines continue. These declines are impacting our state funding as the District receives funding based on enrollment. The enrollment declines are a threat to our operation as we know it today.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future state funding and on its financial operations.

In conclusion, the District has committed itself to financial excellence for many years. Audited annual financial reports are filed as required by law and no findings, citations, items for adjustment, or material weaknesses in internal controls were noted as a part of these audits. The District continues a program to improve the quality of its fiscal management by taking a proactive approach to cash management, not only to maximize funds, but also to achieve optimal income on cash balances. All this having been said, meeting the needs of natural budget cycles will be our greatest challenge.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Karen Elsner, Treasurer, West Branch Local School District, 14277 Main Street, Beloit, Ohio 44609.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 14,384,073
Investments	7,849,171
Receivables:	
Taxes	4,601,864
Accounts	39,233
Intergovernmental	11,596,926
Accrued interest	350,141
Prepayments	42,469
Materials and supplies inventory	28,348
Capital assets:	
Land	683,200
Construction in progress	16,557,814
Depreciable capital assets, net	3,162,102
Capital assets, net	20,403,116
 Total assets	 59,295,341
Liabilities:	
Accounts payable	62,382
Contracts payable	79,985
Accrued wages and benefits	2,269,069
Pension obligation payable	378,901
Intergovernmental payable	42,530
Deferred revenue	3,982,656
Accrued interest payable	33,093
Long-term liabilities:	
Due within one year	394,000
Due within more than one year	9,060,300
 Total liabilities	 16,302,916
Net Assets:	
Invested in capital assets, net of related debt	11,778,569
Restricted for:	
Capital projects	27,787,472
Debt service	304,191
Other purposes	543,368
Unrestricted	2,578,825
 Total net assets	 \$ 42,992,425

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 8,214,689	\$ 889,791	\$ 126,420	\$ 22,860	\$ (7,175,618)
Special	1,552,296	-	612,869	-	(939,427)
Vocational	491,096	-	-	2,394	(488,702)
Other	10,386	-	-	-	(10,386)
Support services:					
Pupil	685,511	-	13,897	-	(671,614)
Instructional staff	863,761	-	117,301	5,763	(740,697)
Board of education	28,097	-	-	-	(28,097)
Administration	1,454,897	109,452	9,774	-	(1,335,671)
Fiscal	376,888	-	-	-	(376,888)
Operations and maintenance	4,825,477	3,103	11,334	-	(4,811,040)
Pupil transportation	1,469,258	52	379	-	(1,468,827)
Central	88,729	-	-	-	(88,729)
Operation of non-instructional	262,341	6,077	152,821	-	(103,443)
Food service operations	831,438	491,995	322,366	-	(17,077)
Extracurricular activities	587,364	199,368	-	-	(387,996)
Interest and fiscal charges	433,637	-	-	-	(433,637)
Total governmental activities	\$ 22,175,865	\$ 1,699,838	\$ 1,367,161	\$ 31,017	(19,077,849)
General Revenues:					
Property taxes levied for:					
					3,417,484
					77,537
					615,152
Grants and entitlements not restricted to specific programs					
					11,165,570
					544,798
					157,748
					<u>15,978,289</u>
					Change in net assets (3,099,560)
					Net assets at beginning of year <u>46,091,985</u>
					Net assets at end of year <u>\$ 42,992,425</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,198,025	\$ 8,611,954	\$ 1,498,382	\$ 14,308,361
Investments	-	7,849,171	-	7,849,171
Receivables:				
Taxes	3,822,221	-	779,643	4,601,864
Accounts	35,511	-	3,722	39,233
Intergovernmental	6,737	11,487,856	102,333	11,596,926
Accrued interest	25,081	325,060	-	350,141
Prepayments	36,398	6,071	-	42,469
Materials and supplies inventory	-	-	28,348	28,348
Restricted assets:				
Equity in pooled cash and cash equivalents	75,712	-	-	75,712
Total assets	\$ 8,199,685	\$ 28,280,112	\$ 2,412,428	\$ 38,892,225
Liabilities:				
Accounts payable	\$ 54,070	\$ -	\$ 8,312	\$ 62,382
Contracts payable	-	79,985	-	79,985
Accrued wages and benefits	2,082,269	-	186,800	2,269,069
Pension obligation payable	195,785	-	25,888	221,673
Intergovernmental payable	38,742	-	3,788	42,530
Deferred revenue	3,786,350	11,790,176	841,135	16,417,661
Total liabilities	6,157,216	11,870,161	1,065,923	19,093,300
Fund Balances:				
Reserved for encumbrances	312,916	10,294,106	52,640	10,659,662
Reserved for materials and supplies inventory	-	-	28,348	28,348
Reserved for prepayments	36,398	6,071	-	42,469
Reserved for property tax unavailable for appropriation	32,564	-	12,357	44,921
Reserved for budget stabilization	75,712	-	-	75,712
Unreserved, undesignated, reported in:				
General fund	1,584,879	-	-	1,584,879
Special revenue funds	-	-	389,070	389,070
Debt service fund	-	-	239,106	239,106
Capital projects funds	-	6,109,774	624,984	6,734,758
Total fund balances	2,042,469	16,409,951	1,346,505	19,798,925
Total liabilities and fund balances	\$ 8,199,685	\$ 28,280,112	\$ 2,412,428	\$ 38,892,225

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Total governmental fund balances		\$ 19,798,925
<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.		20,403,116
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	570,979	
Intergovernmental revenue	11,561,705	
Accrued interest	302,321	
Total		12,435,005
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	829,753	
Pension obligation payable	157,228	
General obligation bonds payable	8,624,547	
Accrued interest payable	33,093	
Total		(9,644,621)
Net assets of governmental activities		\$ 42,992,425

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,341,192	\$ -	\$ 690,384	\$ 4,031,576
Tuition	849,472	-	-	849,472
Charges for services	-	-	486,135	486,135
Earnings on investments	145,011	197,442	3,135	345,588
Extracurricular	8,059	-	284,862	292,921
Other revenue	211,227	1,766	21,331	234,324
Intergovernmental - State	11,024,980	15,665,840	358,560	27,049,380
Intergovernmental - Federal	36,389	-	1,071,949	1,108,338
Total revenue	<u>15,616,330</u>	<u>15,865,048</u>	<u>2,916,356</u>	<u>34,397,734</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,672,462	91,805	215,882	7,980,149
Special	917,127	-	633,620	1,550,747
Vocational	491,656	-	2,394	494,050
Other	10,386	-	-	10,386
Support services:				
Pupil	682,394	-	13,015	695,409
Instructional staff	570,116	-	153,269	723,385
Board of education	30,113	-	-	30,113
Administration	1,329,807	-	112,457	1,442,264
Fiscal	355,569	-	14,019	369,588
Operations and maintenance	1,510,915	85,383	43,587	1,639,885
Pupil transportation	1,225,942	-	1,314	1,227,256
Central	86,041	-	-	86,041
Operation of non-instructional services	72,625	-	163,471	236,096
Food service operations	-	-	731,456	731,456
Extracurricular activities	297,290	-	228,105	525,395
Facilities acquisition and construction	2,750	17,627,798	9,480	17,640,028
Debt service:				
Principal retirement	-	-	270,000	270,000
Interest and fiscal charges	-	-	402,511	402,511
Total expenditures	<u>15,255,193</u>	<u>17,804,986</u>	<u>2,994,580</u>	<u>36,054,759</u>
Excess of revenues under expenditures	<u>361,137</u>	<u>(1,939,938)</u>	<u>(78,224)</u>	<u>(1,657,025)</u>
Other financing sources (uses):				
Transfers in	-	-	183,673	183,673
Transfers (out)	(183,673)	-	-	(183,673)
Proceeds from sale of capital assets	63,600	-	-	63,600
Total other financing sources	<u>(120,073)</u>	<u>-</u>	<u>183,673</u>	<u>63,600</u>
Net change in fund balances	241,064	(1,939,938)	105,449	(1,593,425)
Fund balances at beginning of year (restated)	1,801,405	18,349,889	1,212,708	21,364,002
Increase in reserve for inventory	-	-	28,348	28,348
Fund balances at end of year	<u>\$ 2,042,469</u>	<u>\$ 16,409,951</u>	<u>\$ 1,346,505</u>	<u>\$ 19,798,925</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	(1,593,425)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		13,774,907
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(25,150)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		28,348
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(15,432,440)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		270,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and therefore requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and accreted interest on the capital appreciation bonds		(31,126)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(90,674)
Change in net assets of governmental activities	\$	<u><u>(3,099,560)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,423,606	\$ 3,428,164	\$ 3,428,164	\$ -
Tuition	848,343	849,472	849,472	-
Earnings on investments	119,922	120,082	120,082	-
Extracurricular	8,049	8,059	8,059	-
Other local revenues	149,185	149,384	149,384	-
Intergovernmental - State	11,016,589	11,031,257	11,031,257	-
Intergovernmental - Federal	29,613	29,652	29,652	-
Total revenue	<u>15,595,307</u>	<u>15,616,070</u>	<u>15,616,070</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,683,598	7,686,915	7,593,182	93,733
Special	922,293	922,691	911,440	11,251
Vocational	485,056	485,265	479,348	5,917
Other	10,509	10,513	10,385	128
Support services:				
Pupil	705,097	705,402	696,800	8,602
Instructional staff	588,093	588,347	581,173	7,174
Board of education	33,751	33,766	33,354	412
Administration	1,346,637	1,347,219	1,330,791	16,428
Fiscal	361,123	361,279	356,874	4,405
Operations and maintenance	1,633,361	1,634,067	1,614,141	19,926
Pupil transportation	1,433,883	1,433,500	1,416,020	17,480
Central	245,526	246,632	243,625	3,007
Operation of non-instructional services	76,124	76,157	75,228	929
Extracurricular activities	313,236	313,371	309,550	3,821
Facilities acquisition and construction	3,036	3,037	3,000	37
Total expenditures	<u>15,841,323</u>	<u>15,848,161</u>	<u>15,654,911</u>	<u>193,250</u>
Excess of revenues over (under) expenditures	<u>(246,016)</u>	<u>(232,091)</u>	<u>(38,841)</u>	<u>193,250</u>
Other financing sources (uses):				
Refund of prior year expenditure	27,716	27,753	27,753	-
Transfers in	50,774	50,842	50,842	-
Transfers (out)	(237,307)	(237,410)	(234,515)	2,895
Advances in	77,491	77,594	77,594	-
Proceeds from sale of capital assets	63,515	63,600	63,600	-
Total other financing sources (uses)	<u>(17,811)</u>	<u>(17,621)</u>	<u>(14,726)</u>	<u>2,895</u>
Net change in fund balance	(263,827)	(249,712)	(53,567)	196,145
Fund balance at beginning of year (restated)	3,828,479	3,828,479	3,828,479	-
Prior year encumbrances appropriated	174,439	174,439	174,439	-
Fund balance at end of year	<u>\$ 3,739,091</u>	<u>\$ 3,753,206</u>	<u>\$ 3,949,351</u>	<u>\$ 196,145</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 22,037	\$ 36,738
Total assets	22,037	36,738
Liabilities:		
Accounts payable	-	40
Intergovernmental payable	-	1,335
Due to students	-	35,363
Total liabilities	-	\$ 36,738
Net Assets:		
Held in trust for scholarships	22,037	
Total net assets	\$ 22,037	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 325
Total additions	325
Deductions:	
Scholarships awarded	801
Change in net assets	(476)
Net assets at beginning of year	22,513
Net assets at end of year	\$ 22,037

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The West Branch Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member board of education (the "Board") elected by its citizens. The Board controls the District's six school buildings, and bus garage staffed by administrators, teachers, and non-certified personnel providing educational opportunities to its students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization 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, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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 this 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:

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System

Area Cooperative Computerized Educational Service System (ACCESS), a not-for-profit computer service, is jointly governed by 24 districts within Mahoning and Columbiana counties. ACCESS is governed by an assembly consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the assembly. Members of ACCESS are assessed annual user fees and periodic capital improvement fees based on their average daily membership. During fiscal year 2003, the District paid \$111,737 to ACCESS for computer services. The members do not have an ongoing financial interest in ACCESS, however, they do have an equity interest. Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 2801 Market Street, Youngstown, Ohio 44507-1693.

Mahoning County Career & Technology Center

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

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice Inc. provides administrative, cost control, and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

GOVERNMENTAL FUNDS

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

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

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Classroom Facilities Fund - The classroom facilities fund is used to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

The private purpose trust fund is reported using the economic resources measurement focus. 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. 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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 used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Mahoning County Budget Commission for tax rate determination.
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 amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
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 are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2003, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, 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 repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. 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, 2003.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$145,011, which includes \$83,073 assigned from other District funds.

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

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

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 used. Inventories are accounted for using the purchase 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 related to government activities. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2003 the District increased its capitalization threshold from \$500 to \$1,500. 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.

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

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

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 activities column on the Statement of Net Assets. The District had no interfund payable or receivables at June 30, 2003.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 age fifty seven or greater with two years of service, age fifty two or greater with seven years of service or any age with twenty seven years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, 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.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

L. Fund 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 and budget stabilization. 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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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.

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

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. See Note 16 for details.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Q. Interfund Activity

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

R. Nonpublic School

Salem Christian Academy operates within the boundaries of the District. State Legislation provides funding to this school. The District receives the money and then disburses the money as directed by the school. These transactions are reported as a governmental activity of the District.

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 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparisons for the general fund.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassification, the adjustments for interest and tax revenue and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2002	\$ 1,746,057	\$ 18,349,889	\$ 1,165,729	\$ 21,261,675
Fund reclassifications	22,800	-	46,979	69,779
Implementation of GASB Interpretation No. 6	<u>32,548</u>	<u>-</u>	<u>-</u>	<u>32,548</u>
Restated fund balance, June 30, 2002	<u>\$ 1,801,405</u>	<u>\$ 18,349,889</u>	<u>\$ 1,212,708</u>	<u>\$ 21,364,002</u>

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

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 21,364,002
GASB 34 adjustments:	
Long-term (deferred) assets	27,867,445
Capital assets	6,653,359
Accrued interest payable	(33,993)
Long-term liabilities	<u>(9,758,828)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 46,091,985</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Management Information System	\$ 32
DPIA	46
Title I	58,429
Classroom Size Reduction	15,146

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. 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 results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

Interim monies may be 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 or interest by the United States;

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$8,743,921 and the bank balance was \$8,906,011. These balances included \$4,792,241 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$300,000 was covered by federal depository insurance or surety company bonds deposited with the District; and

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. \$8,606,415 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ -	\$ 306,435	\$ 306,435	\$ 306,435
Federal agency securities	<u>3,056,930</u>	<u>-</u>	3,056,930	3,056,930
Total	<u>\$ 3,056,930</u>	<u>\$ 306,435</u>		
Investment in STAR Ohio			<u>10,184,733</u>	<u>10,184,733</u>
Total investments			<u>\$ 13,548,098</u>	<u>\$ 13,548,098</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 14,442,848	\$ 7,849,171
Investments of the cash management pool:		
Repurchase agreements	(306,435)	306,435
Investment in STAR Ohio	(10,184,733)	10,184,733
Certificates of deposit	<u>4,792,241</u>	<u>(4,792,241)</u>
GASB Statement No. 3	<u>\$ 8,743,921</u>	<u>\$ 13,548,098</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	\$ <u>183,673</u>
Total transfers in/out	\$ <u>183,673</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds will be eliminated on the government-wide financials.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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.

**WEST BRANCH LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$178,119,580. Agricultural/residential and public utility/minerals real estate represented \$144,999,190 or 81.40% of this total, commercial & industrial real estate represented \$12,660,500 or 7.10% of this total, public utility tangible represented \$12,563,140 or 7.05 of this total and general tangible property represented \$7,896,750 or 4.43% of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was \$36.45 per \$1,000.00 of assessed valuation for operations, \$4.00 per \$1,000.00 of assessed valuation for debt retirement and \$0.50 per \$1,000.00 of assessed valuation for permanent improvements. 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.

The District receives property taxes from Mahoning, Portage and Columbiana Counties. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 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, 2003 was \$32,564 in the general fund, \$10,992 in the debt service fund, and \$1,365 in the facilities maintenance special revenue fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$119,250 in the general fund, \$23,850 in the debt service fund, and \$2,825 in the facilities maintenance special revenue fund.

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.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 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:

Property taxes	\$	4,601,864
Accounts		39,233
Accrued interest		350,141
Intergovernmental		<u>11,596,926</u>
Total	\$	<u><u>16,588,164</u></u>

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

NOTE 8 - CAPITAL ASSETS

The capital asset balances of the governmental activities have been restated due to errors and omissions reported in prior years, fund reclassification, change in the capitalization threshold (see Note 2.H. for detail) and the depreciation of capital assets in accordance with GASB Statement No. 34.

	Balance <u>6/30/02</u>	<u>Adjustments</u>	Restated Balance <u>6/30/02</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 683,200	\$ -	\$ 683,200
Construction in progress	<u>2,098,311</u>	<u>-</u>	<u>2,098,311</u>
Total capital assets, not being depreciated	<u>2,781,511</u>	<u>-</u>	<u>2,781,511</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	582,960	1,268,706	1,851,666
Buildings and improvements	5,529,776	(964,907)	4,564,869
Furniture and equipment	3,060,428	(857,196)	2,203,232
Textbooks and library books	894,697	(279,180)	615,517
Vehicles	<u>1,863,167</u>	<u>(615)</u>	<u>1,862,552</u>
Total capital assets, being depreciated	<u>11,931,028</u>	<u>(833,192)</u>	<u>11,097,836</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(7,225,988)</u>	<u>(7,225,988)</u>
Governmental activities capital assets, net	<u>\$ 14,712,539</u>	<u>\$ (8,059,180)</u>	<u>\$ 6,653,359</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 683,200	\$ -	\$ -	\$ 683,200
Construction in progress	<u>2,098,311</u>	<u>14,459,503</u>	<u>-</u>	<u>16,557,814</u>
Total capital assets, not being depreciated	<u>2,781,511</u>	<u>14,459,503</u>	<u>-</u>	<u>17,241,014</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,851,666	-	-	1,851,666
Building and improvements	4,564,869	-	-	4,564,869
Furniture and equipment	2,203,232	-	(53,747)	2,149,485
Textbooks and library books	615,517	-	-	615,517
Vehicles	<u>1,862,552</u>	<u>-</u>	<u>-</u>	<u>1,862,552</u>
Total capital assets, being depreciated	<u>11,097,836</u>	<u>-</u>	<u>(53,747)</u>	<u>11,044,089</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(975,888)	(72,671)	-	(1,048,559)
Building and improvements	(3,548,504)	(64,336)	-	(3,612,840)
Furniture and equipment	(1,235,954)	(245,851)	28,597	(1,453,208)
Textbooks and library books	(461,638)	(102,586)	-	(564,224)
Vehicles	<u>(1,004,004)</u>	<u>(199,152)</u>	<u>-</u>	<u>(1,203,156)</u>
Total accumulated depreciation	<u>(7,225,988)</u>	<u>(684,596)</u>	<u>28,597</u>	<u>(7,881,987)</u>
Governmental activities capital assets, net	<u>\$ 6,653,359</u>	<u>\$ 13,774,907</u>	<u>\$ (25,150)</u>	<u>\$ 20,403,116</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 222,050
Special	3,037
Vocational	11,147

Support Services:

Pupil	1,630
Instructional staff	136,303
Administration	21,318
Fiscal	1,241
Operations and maintenance	2,431
Pupil transportation	202,956
Central	2,688
Non-instructional services	2,401
Extracurricular activities	65,029
Food service operations	<u>12,365</u>

Total depreciation expense	<u>\$ 684,596</u>
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NOTE 9 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$116,919 from \$645,255 to \$762,174 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$124,744 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$7,825 from \$9,632,520 to \$9,624,695. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Interest	Restated			Balance	Amounts
	Rate	Balance	Outstanding	Outstanding	Outstanding	Due in
		06/30/02	Additions	Reductions	06/30/03	One Year
Governmental Activities:						
General obligation bonds	5.10%	\$ 8,862,521	\$ 32,026	\$ (270,000)	\$ 8,624,547	\$ 280,000
Compensated absences		<u>762,174</u>	<u>122,676</u>	<u>(55,097)</u>	<u>829,753</u>	<u>114,000</u>
Total long-term obligations, governmental activities		<u>\$ 9,624,695</u>	<u>\$ 154,702</u>	<u>\$ (325,097)</u>	<u>\$ 9,454,300</u>	<u>\$ 394,000</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. General Obligation Bonds

On June 15, 2001, the District issued \$8,949,999 in general obligation bonds (Series 2001, Classroom Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC) has awarded the District a \$36,916,969 grant for the project, and will make quarterly disbursements to the District until the project is completed. These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Payments of principle and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 4.0 (average) mill bonded debt tax levy.

The general obligation bonds were issued to pay the local share of school construction under the OSFC Program (the "Project"), including construction of two elementary schools to house grade K-5, construction of a new K-8 school, renovations and additions to the existing high school to house grades 9 - 12, abandonment and possible demolition of the existing Damascus and Knox Elementary Schools.

In conjunction with the 4.0 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy have been reported in the special revenue funds.

This issue is comprised of current interest term bonds, par value \$6,350,000, serial bonds, par value \$2,235,000, and capital appreciation bonds, par value \$720,000. The capital appreciation bonds mature each December 1, 2009 and December 1, 2010, (effective interest 8.4199%, on both bonds) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value at June 30, 2003 was \$344,999. The total accreted interest was \$59,548 at June 30, 2003. The current interest bonds maturing on or after December 1, 2017 are subject to early redemption at the sole option of the District, at a redemption price equal to 100% of par plus accrued interest.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2023.

The annual requirement to amortize all note debt outstanding as of June 30, 2003 including interest payments of \$5,536,904 are as follows:

<u>Year Ending June 30</u>	<u>General Obligation Bonds</u>	<u>Capital Appreciation Bonds</u>
2004	\$ 672,511	\$ -
2005	675,011	-
2006	668,111	-
2007	675,711	-
2008	672,711	-
Thereafter	<u>9,990,338</u>	<u>720,000</u>
Total	<u>\$ 13,354,393</u>	<u>\$ 720,000</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. 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, 2003 are a voted debt margin of \$24,905,407 (including available funds of \$250,098) and an unvoted debt margin of \$178,120.

NOTE 10 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Upon retirement, payment is made to both classified and certified employees for one-third of accrued, but unused sick leave credit up to a maximum of 50 days for those employees with 10-19 years of continuous service to the District, and 55 days for those with 20 or more years of continuous service.

NOTE 11 - RISK MANAGEMENT

Comprehensive - 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 2003, the District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents - replacement cost - \$30,795,447 (\$5,000 deductible)

Inland Machine Coverage - \$1,937,317 (\$250 deductible)

Boiler and Machinery - \$8,478,000 (\$1,000 deductible)

Automobile Liability - \$1,000,000 and \$1,000,000 excess

Uninsured Motorists - \$50,000

General Liability - \$3,000,000 each occurrence / \$3,000,000 aggregate

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 11 - RISK MANAGEMENT - (Continued)

Mahoning County School Employee Insurance Consortium - The District is a participant in the Mahoning County School Employee Insurance Consortium, a public entity shared risk pool, currently operating as a common risk management and insurance program for 14 member school districts. The plan was organized to provide health care and other benefits to its member organizations. Rates are calculated and set through an annual update process. The District pays a monthly contribution which is placed in a common fund from which claim payments and claims are made for all participating districts, regardless of cash flow. The District is responsible for paying health plan claims up to \$135,000 per individual per year. Any claims exceeding the \$135,000 are covered by the District's stop-loss carrier, July 1, 2002, Trans America.

The District offers two plans, one paid at 100% and one at 93%. A dental plan is also available at 93%. Healthcare is administered by PRM; dental coverage is administered by Coresource. The fiscal officer of the COG is the Treasurer of the Austintown City School District. The fiscal agent pays PMR monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$292,675, \$271,573, and \$300,452, respectively; 44.84% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$161,448, represents the unpaid contribution for fiscal year 2003.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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% 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.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,098,584, \$1,042,281, and \$1,055,499, respectively; 84.77% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$167,320, represents the unpaid contribution for fiscal year 2003.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$78,470 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$156,263 during the 2003 fiscal year.

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETRY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, 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	\$ (53,567)
Net adjustment for revenue accruals	260
Net adjustment for expenditure accrals	75,332
Net adjustment for other sources/uses	(105,347)
Adjustment for encumbrances	<u>324,386</u>
GAAP basis	<u><u>\$ 241,064</u></u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to legal proceedings that will have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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, 2003, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30,2002	\$ (81,205)	\$ (10,793,360)	\$ 75,712
Current year set-aside requirement	312,160	312,160	-
Qualifying disbursements	<u>(372,597)</u>	<u>(338,041)</u>	<u>-</u>
Total	<u>\$ (141,642)</u>	<u>\$ (10,819,241)</u>	<u>\$ 75,712</u>
Balance carried forward to FY 2004	<u>\$ (141,642)</u>	<u>\$ (10,819,241)</u>	<u>\$ 75,712</u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 16 - STATUTORY RESERVES - (Continued)

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

Amount restricted for budget stabilization	<u>\$ 75,712</u>
Total restricted assets	<u><u>\$ 75,712</u></u>

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/ Sub-Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Ohio Department of Education			
Title I	84.010	048389-C1-S1-02 048389-C1-S1-03	\$ 469,558 425,482
Total Title I			
Title VI-B	84.027	048389-6B-SF-02 048389-6B-SF-03	\$ 191,096 250,974
Total Title-VI-B			
Title VI	84.298	048389-C2-S1-02 048389-C2-S1-03	\$ 13,419 13,654
Total Title VI			
Drug Free Schools Grant	84.186	048389-DR-S1-02 048389-DR-S1-03	\$ 10,183 17,068
Total Drug Free Schools Grant			
Eisenhower Grant	84.281	048389-MS-S1-03	\$ 2,477
Class Size Reduction Grant	84.340	048389-CR-S1-02 048389-CR-S1-03	\$ 73,953 118,122
Total Class Size Reduction Grant			
Title II - D	84.318	048389-TJ-S1-03	\$ 11,650
Total U.S. Department of Education			
Passed through Ohio Department Mental Retardation and Development Disabilities			
Title XIX - Medical Assistance Program	93.778	-	-

<u>Balance</u> <u>7/1/02</u>	<u>Federal</u> <u>Receipts</u>	<u>Advances</u> <u>In/(Out)</u>	<u>Federal</u> <u>Disbursements</u>	<u>Balance</u> <u>6/30/03</u>
\$ 2,468	\$ 119,676	\$ -	\$ 122,144	\$ -
-	365,671	-	345,048	20,623
<u>2,468</u>	<u>485,347</u>	<u>-</u>	<u>467,192</u>	<u>20,623</u>
-	77,878	(76,438)	1,440	-
-	250,974	-	238,129	12,845
<u>-</u>	<u>328,852</u>	<u>(76,438)</u>	<u>239,569</u>	<u>12,845</u>
379	-	-	-	379
-	14,531	-	14,201	330
<u>379</u>	<u>14,531</u>	<u>-</u>	<u>14,201</u>	<u>709</u>
-	1,746	(1,156)	590	-
-	17,068	-	7,032	10,036
<u>-</u>	<u>18,814</u>	<u>(1,156)</u>	<u>7,622</u>	<u>10,036</u>
2,477	-	-	2,477	-
2,970	7,681	-	10,632	19
-	102,858	-	95,955	6,903
<u>2,970</u>	<u>110,539</u>	<u>-</u>	<u>106,587</u>	<u>6,922</u>
-	11,650	-	11,650	-
<u>8,294</u>	<u>969,733</u>	<u>(77,594)</u>	<u>849,298</u>	<u>51,135</u>
-	29,652	-	29,652	-

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/ Sub-Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through Ohio Department of Education			
Nutrition Cluster:			
National School Lunch Program(B)	10.555	-	-
National School Breakfast Program	10.553	-	-
Food Distribution Program	10.550	-	-

Total U.S. Department of Agriculture

(A) Total Federal Financial Assistance

(A) Schedule is presented on the cash basis of accounting. Federal Financial Assistance is determined to be on the First In, First Out basis.

(B) Commingled with state and local revenue from the sale of lunches.

<u>Balance</u> <u>7/1/02</u>	<u>Federal</u> <u>Receipts</u>	<u>Transfers</u> <u>In/Out</u>	<u>Federal</u> <u>Disbursements</u>	<u>Balance</u> <u>6/30/03</u>
-	193,570	-	193,570	-
-	7,181	-	7,181	-
<u>20,346</u>	<u>79,165</u>	<u>-</u>	<u>79,340</u>	<u>20,171</u>
<u>20,346</u>	<u>279,916</u>	<u>-</u>	<u>280,091</u>	<u>20,171</u>
<u>\$ 28,640</u>	<u>\$ 1,279,301</u>	<u>\$ (77,594)</u>	<u>\$ 1,159,041</u>	<u>\$ 71,306</u>

Nagel, Weigand & Company, LLC

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
West Branch Local School District
Beloit, Ohio 44609

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the West Branch Local School District, Mahoning County as of and for the year ended June 30, 2003, and have issued our report thereon date April 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

This report is intended for the information and use of management, Auditor of State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 14, 2004

Nagel, Weigand & Co., LLC

Nagel, Weigand & Company, LLC

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
West Branch Local School District
Beloit, Ohio 44609

Compliance

We have audited the compliance of the West Branch Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the West Branch Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the West Branch Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more in the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Auditor of State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 14, 2004

Nagel, Weigand & Company, LLC

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on basic financial statements of the West Branch Local School District.
2. No reportable conditions were disclosed during the audit of the financial statements of the West Branch Local School District.
3. No instances of noncompliance material to the financial statements of the West Branch Local School District were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the West Branch Local School District expresses an unqualified opinion.
6. No audit findings relative to the major programs for the West Branch Local School District were disclosed during the audit.
7. The programs tested as major included: Nutrition Cluster (10.550, 10.555, and 10.553) and Title VI (84.298).
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. West Branch Local School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**WEST BRANCH LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

GENERAL COMMENTS

The report, including the citations and recommendations, was reviewed with and acknowledged by the following officials on April 14, 2004:

Karen Elsner: Treasurer

These officials were informed that they had five working days for the Auditor of State and sixty days for the federal government from the date of the post audit conference to respond to, or contest, in writing, the report contents. No such response was received.

School District personnel were very cooperative and available for questions and assistance during regular working hours.



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

WEST BRANCH LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 27, 2004**