



**Auditor of State
Betty Montgomery**

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Poland Local School District
Mahoning County
30 Riverside Drive
Poland, Ohio 44514

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

June 29, 2005

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$237,360, which represents a 7.10% increase from 2003.
- General revenues accounted for \$17,564,043 in revenue, or 89.14% of all revenues. Program specific revenues in the form of charges for services and sales, and grants and contributions accounted for \$2,140,937, or 10.86% of total revenues of \$19,704,980.
- The District had \$19,467,620 in expenses related to governmental activities; only \$2,140,937 of these expenses was offset by program specific charges for services and sales, and grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,564,043 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund and building fund. The general fund had \$16,488,930 in revenues and other financing sources and \$16,153,411 in expenditures and other financing uses. During fiscal 2004, the fund deficit of the general fund decreased by \$326,840 from \$1,987,922 to \$1,661,082.
- The District's bond retirement fund had \$1,825,185 in revenues and \$1,704,259 in expenditures. During fiscal 2004, the fund balance of the bond retirement fund increased by \$120,926 from \$666,408 to \$787,334.
- The District's building fund had \$108,476 in revenues and \$602,815 in expenditures. During fiscal 2004, fund balance of the building fund decreased by \$494,339 from \$3,727,813 to \$3,233,474.

Using the Basic Financial Statements

This annual report consists of this management's discussion and analysis, the basic financial statements and the notes to the basic financial 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 governmental activities of the District as a whole, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, bond retirement fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, the 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.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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 major governmental funds are the general fund, bond retirement fund and building 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. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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 an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Restated Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 17,164,587	\$ 14,409,829
Capital assets	<u>6,410,579</u>	<u>6,094,987</u>
Total assets	<u>23,575,166</u>	<u>20,504,816</u>
<u>Liabilities</u>		
Current liabilities	14,171,755	11,283,858
Long-term liabilities	<u>12,508,583</u>	<u>12,563,490</u>
Total liabilities	<u>26,680,338</u>	<u>23,847,348</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	(1,432,060)	(1,531,368)
Restricted	3,793,602	4,642,241
Unrestricted (deficit)	<u>(5,466,714)</u>	<u>(6,453,405)</u>
Total net assets (deficit)	<u>\$ (3,105,172)</u>	<u>\$ (3,342,532)</u>

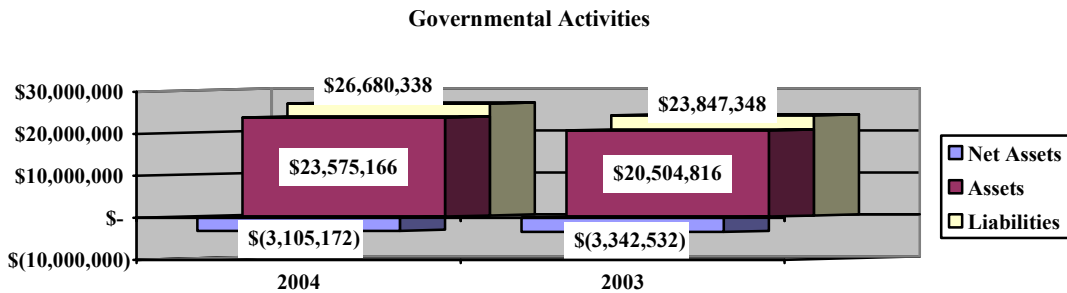
The negative amount reported as net assets, invested in capital assets, net of related debt at June 30, 2003 has been restated in order to properly present this deficit component of net assets. At June 30, 2004, the District's liabilities exceeded assets by \$3,105,172. At year-end, restricted net assets were \$3,793,602. Over time, net assets can serve as a useful indicator of a government's financial position.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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At year-end, capital assets represented 27.19% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$3,793,602, represents resources that are subject to external restriction on how they may be used. The remaining component of net assets, unrestricted net assets, is a deficit of \$5,466,714.



The table below shows the change in net assets for fiscal years 2004 and 2003.

	Change in Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,119,401	\$ 1,165,118
Operating grants and contributions	997,331	828,052
Capital grants and contributions	24,205	62,490
General revenues:		
Property taxes	10,099,814	9,115,211
Grants and entitlements	7,167,019	6,853,787
Investment earnings	171,629	184,293
Other	125,581	182,322
Total revenues	19,704,980	18,391,273

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	9,622,461	9,257,404
Special	823,270	842,680
Vocational	295,105	299,692
Adult	2,077	-
Other	199,268	114,733
Support services:		
Pupil	1,252,331	1,223,671
Instructional staff	323,424	414,988
Board of education	41,958	33,397
Administration	1,449,864	1,287,319
Fiscal	518,079	407,868
Business	240	1,638
Operations and maintenance	1,608,727	1,450,027
Pupil transportation	907,890	954,940
Central	9,190	13,556
Operations of non-instructional services	358,452	332,342
Food service operations	815,146	771,143
Extracurricular activities	623,258	665,000
Interest and fiscal charges	<u>616,880</u>	<u>627,611</u>
Total expenses	<u>19,467,620</u>	<u>18,698,009</u>
Change in net assets	<u>\$ 237,360</u>	<u>\$ (306,736)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$237,360. Total governmental expenses of \$19,467,620 were offset by program revenues of \$2,140,937 and general revenues of \$17,564,043. Program revenues supported 11.00% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.63% of total governmental revenue. Real estate property is reappraised every six years.

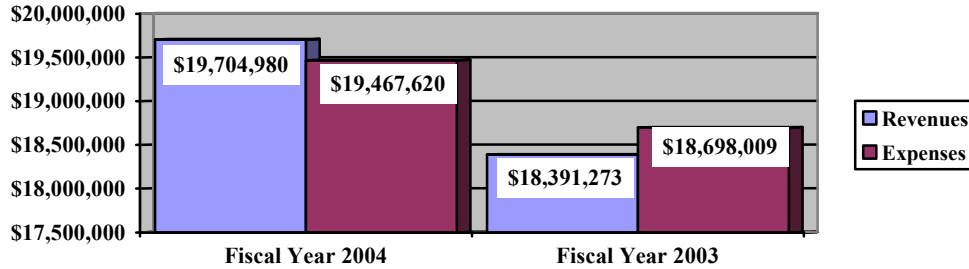
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,942,181 or 56.21% of total governmental expenses for fiscal 2004.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 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.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 9,622,461	\$ 9,483,433	\$ 9,257,404	\$ 9,127,027
Special	823,270	702,076	842,680	720,695
Vocational	295,105	287,643	299,692	293,295
Adult	2,077	2,077	-	-
Other	199,268	60,639	114,733	(10,180)
Support services:				
Pupil	1,252,331	1,225,723	1,223,671	1,197,837
Instructional staff	323,424	286,022	414,988	333,045
Board of education	41,958	41,958	33,397	33,397
Administration	1,449,864	1,311,199	1,287,319	1,152,166
Fiscal	518,079	500,079	407,868	407,868
Business	240	240	1,638	1,638
Operations and maintenance	1,608,727	1,603,879	1,450,027	1,447,689
Pupil transportation	907,890	788,459	954,940	897,460
Central	9,190	4,543	13,556	8,956
Operations of non-instructional services	358,452	(35,329)	332,342	(24,610)
Food service operations	815,146	97,175	771,143	61,687
Extracurricular activities	623,258	349,987	665,000	366,768
Interest and fiscal charges	616,880	616,880	627,611	627,611
Total expenses	<u>\$ 19,467,620</u>	<u>\$ 17,326,683</u>	<u>\$ 18,698,009</u>	<u>\$ 16,642,349</u>

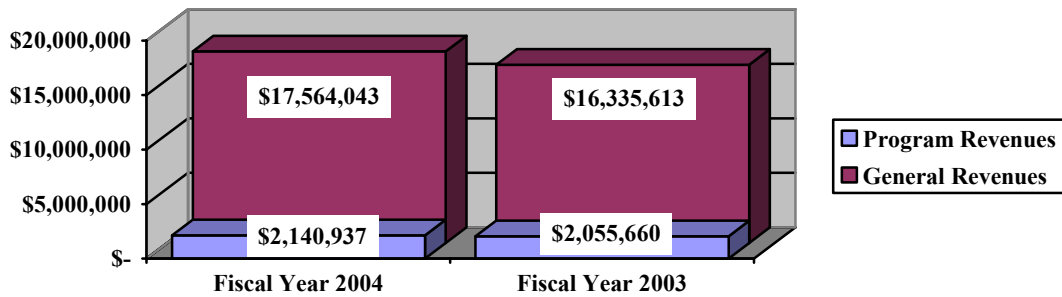
**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 96.29% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.00%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,158,681, which is higher than last year's total of \$2,084,201. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ (1,661,082)	\$ (1,987,922)	\$ 326,840
Bond Retirement	787,334	666,408	120,926
Building	3,233,474	3,727,813	(494,339)
Other Governmental	<u>(201,045)</u>	<u>(322,098)</u>	<u>121,053</u>
Total	<u>\$ 2,158,681</u>	<u>\$ 2,084,201</u>	<u>\$ 74,480</u>

General Fund

The District's general fund balance increased \$326,840. The increase in fund balance can be attributed to property tax and intergovernmental revenue increases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u>	<u>2003</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,085,418	\$ 6,895,003	17.26 %
Earnings on investments	63,153	47,350	33.37 %
Intergovernmental	7,098,197	6,786,183	4.60 %
Other revenues	<u>242,162</u>	<u>334,982</u>	(27.71) %
Total	<u>\$ 15,488,930</u>	<u>\$ 14,063,518</u>	10.14 %
<u>Expenditures</u>			
Instruction	\$ 10,223,447	\$ 10,162,268	0.60 %
Support services	5,542,500	5,411,957	2.41 %
Operation of non-instructional services	2,356	-	100.00 %
Extracurricular activities	324,713	329,340	(1.40) %
Debt service	<u>-</u>	<u>6,509</u>	(100.00) %
Total	<u>\$ 16,093,016</u>	<u>\$ 15,910,074</u>	1.15 %

Tax revenue increased 17.26% from the prior year, primarily due to the new tax levy that was in effect for fiscal 2004. Investment income increased 33.37%, mostly due to the capital gain on the common stock held by the District until June 28, 2004. The District received this stock from the demutualization of Anthem, Inc. and no public monies were used to purchase the stock. Other revenues decreased 27.71%, primarily due to a decrease in revenues generated by programs offered by the District to other governments, entities and organizations.

Debt service expenditures decreased by 100.00%, due to the absence of capital lease payments in fiscal 2004.

Bond Retirement Fund

The District's bond retirement fund balance increased by \$120,926. The increase in fund balance can be attributed to a decrease in debt service expenditures.

Building Fund

The District's building fund balance decreased by \$494,339. The decrease in fund balance can be attributed to continued facilities acquisition and construction expenses.

General Fund Budgeting Highlights

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

During fiscal 2004, the District amended its general fund budget numerous times. General fund original budgeted revenues and other financing sources were \$15,193,270. Final budgeted revenues and other financing sources were \$16,330,082, an increase of \$1,136,812 over original budgeted revenues. Actual revenues and other financing sources were \$16,463,952, an increase of \$133,870 over final budgeted revenues.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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General fund original budgeted expenditures and other financing uses were \$15,476,259. Final budgeted expenditures and other financing uses were \$16,513,073, an increase of \$1,036,814 over the original budgeted expenditures. Actual expenditures and other financing uses were \$16,284,252, a decrease of \$228,821 from the final budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, the District had \$6,410,579 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. The following table shows the 2004 balances compared to 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 304,780	\$ 304,780
Land improvements	-	-
Building and improvements	2,862,780	3,005,862
Furniture and equipment	211,371	244,289
Vehicles	500,755	611,978
Construction in progress	<u>2,530,893</u>	<u>1,928,078</u>
Total	<u><u>\$ 6,410,579</u></u>	<u><u>\$ 6,094,987</u></u>

The primary increase occurred in construction in progress. Total additions to capital assets for 2004 were \$613,510 and total disposals were \$1,595 (net of accumulated depreciation). The District recorded \$296,323 in depreciation expense for fiscal 2004. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$11,009,008 in general obligation bonds, energy conservation notes and lease purchase obligations, \$446,404 due within one year and \$10,562,604 due in more than one year. The following table shows the 2004 balances compared to 2003.

	Outstanding Debt, at Year End	
	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
General obligation bonds	\$ 5,372,213	\$ 5,527,676
Energy conservation notes	381,712	524,535
Lease obligations	<u>5,255,083</u>	<u>5,372,845</u>
Total	<u><u>\$ 11,009,008</u></u>	<u><u>\$ 11,425,056</u></u>

At June 30, 2004, the District had a voted debt margin was \$25,498,714 and an unvoted debt margin of \$340,385. See Note 11 to the basic financial statements for additional information on the District's debt administration.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District is in a situation where an operating levy may have to be passed by District voters in 2006 in order for the District to obtain the necessary funds to meet its operating expenses in fiscal year 2007.

Another challenge facing the District is the completion of the various construction projects undertaken through Phase III. Approximately \$5.5 million in school renovations are scheduled under the Phase III project. All construction projects are expected to be completed by fiscal year 2005.

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. 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. At this time, the District is unable to determine what effect, if any, this decision 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. The District's system of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

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 Mr. Donald Stanovcak, Treasurer, Poland Local School District, 30 Riverside Drive, Poland, Ohio 44514.

**BASIC
FINANCIAL STATEMENTS**

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,198,384
Receivables:	
Taxes	11,927,733
Intergovernmental	21,984
Accrued interest	433
Materials and supplies inventory	16,053
Capital assets:	
Land and construction in progress.	2,835,673
Depreciable capital assets, net	3,574,906
Total capital assets, net	6,410,579
 Total assets.	 23,575,166
Liabilities:	
Accounts payable.	7,419
Contracts payable.	211,755
Accrued wages and benefits	2,025,194
Pension obligation payable.	373,512
Intergovernmental payable	105,204
Deferred revenue	11,279,125
Accrued interest payable	169,546
Long-term liabilities:	
Due within one year.	585,471
Due within more than one year	11,923,112
 Total liabilities	 26,680,338
Net Assets:	
Invested in capital assets, net of related debt.	(1,432,060)
Restricted for:	
Capital projects	2,919,072
Debt service.	869,968
Other purposes	4,562
Unrestricted (deficit)	(5,466,714)
 Total net assets (deficit)	 \$ (3,105,172)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	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:					
Instruction:					
Regular	\$ 9,622,461	\$ 56,964	\$ 82,064	\$ -	\$ (9,483,433)
Special	823,270	-	121,194	-	(702,076)
Vocational	295,105	7,462	-	-	(287,643)
Adult	2,077	-	-	-	(2,077)
Other	199,268	138,629	-	-	(60,639)
Support services:					
Pupil	1,252,331	-	26,608	-	(1,225,723)
Instructional staff	323,424	-	37,402	-	(286,022)
Board of education	41,958	-	-	-	(41,958)
Administration	1,449,864	-	114,460	24,205	(1,311,199)
Fiscal	518,079	-	18,000	-	(500,079)
Business	240	-	-	-	(240)
Operations and maintenance	1,608,727	-	4,848	-	(1,603,879)
Pupil transportation	907,890	12,581	106,850	-	(788,459)
Central	9,190	-	4,647	-	(4,543)
Operation of non-instructional services	358,452	21,159	372,622	-	35,329
Food service operations	815,146	609,335	108,636	-	(97,175)
Extracurricular activities	623,258	273,271	-	-	(349,987)
Interest and fiscal charges	616,880	-	-	-	(616,880)
Total governmental activities	\$ 19,467,620	\$ 1,119,401	\$ 997,331	\$ 24,205	(17,326,683)

General Revenues:

Property taxes levied for:	
General purposes	8,076,970
Debt service	1,735,274
Capital projects	287,570
Grants and entitlements not restricted to specific programs	7,167,019
Investment earnings	171,629
Miscellaneous	125,581
Total general revenues	17,564,043
Change in net assets	237,360
Net assets (deficit) at beginning of year . . .	(3,342,532)
Net assets (deficit) at end of year	\$ (3,105,172)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 575,381	\$ 787,334	\$ 3,445,229	\$ 313,205	\$ 5,121,149
Receivables:					
Taxes	10,528,636	1,136,252	-	262,845	11,927,733
Intergovernmental	-	-	-	21,984	21,984
Accrued interest	433	-	-	-	433
Materials and supplies inventory	-	-	-	16,053	16,053
Restricted assets:					
Equity in pooled cash and cash equivalents	77,235	-	-	-	77,235
Total assets	<u>\$ 11,181,685</u>	<u>\$ 1,923,586</u>	<u>\$ 3,445,229</u>	<u>\$ 614,087</u>	<u>\$ 17,164,587</u>
Liabilities:					
Accounts payable	\$ 4,536	\$ -	\$ -	\$ 2,883	\$ 7,419
Contracts payable	-	-	211,755	-	211,755
Accrued wages and benefits	1,898,491	-	-	126,703	2,025,194
Compensated absences payable	97,695	-	-	-	97,695
Pension obligation payable	225,063	-	-	19,128	244,191
Intergovernmental payable	88,346	-	-	16,858	105,204
Deferred revenue	10,528,636	1,136,252	-	267,848	11,932,736
Energy conservation notes payable	-	-	-	381,712	381,712
Total liabilities	<u>12,842,767</u>	<u>1,136,252</u>	<u>211,755</u>	<u>815,132</u>	<u>15,005,906</u>
Fund Balances:					
Reserved for encumbrances	34,931	-	3,131,828	115,711	3,282,470
Reserved for materials and supplies inventory	-	-	-	16,053	16,053
Reserved for debt service	-	787,334	-	-	787,334
Reserved for BWC refunds	77,235	-	-	-	77,235
Unreserved:					
Designated for budget stabilization	247,765	-	-	-	247,765
Undesignated (deficit), reported in:					
General fund	(2,021,013)	-	-	-	(2,021,013)
Special revenue funds	-	-	-	48,903	48,903
Capital projects funds	-	-	101,646	(381,712)	(280,066)
Total fund balances (deficit)	<u>(1,661,082)</u>	<u>787,334</u>	<u>3,233,474</u>	<u>(201,045)</u>	<u>2,158,681</u>
Total liabilities and fund balances	<u>\$ 11,181,685</u>	<u>\$ 1,923,586</u>	<u>\$ 3,445,229</u>	<u>\$ 614,087</u>	<u>\$ 17,164,587</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	2,158,681
<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.			6,410,579
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	648,608	
Intergovernmental revenue		<u>5,003</u>	
Total			653,611
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		5,372,213	
Lease purchase agreement		5,255,083	
Compensated absences		1,401,880	
Pension benefit obligation		129,321	
Accrued interest payable		<u>169,546</u>	
Total			<u>(12,328,043)</u>
Net assets of governmental activities		\$	<u><u>(3,105,172)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 8,085,418	\$ 1,756,362	\$ -	\$ 305,312	\$ 10,147,092
Tuition.	11,102	-	-	99,921	111,023
Transportation fees	12,581	-	-	-	12,581
Charges for services.	-	-	-	609,335	609,335
Earnings on investments.	63,153	-	108,476	-	171,629
Extracurricular.	-	-	-	273,271	273,271
Classroom materials and fees.	92,031	-	-	-	92,031
Other local revenues.	126,448	-	-	20,292	146,740
Intergovernmental - state	7,098,197	68,823	-	413,013	7,580,033
Intergovernmental - federal.	-	-	-	608,266	608,266
Total revenue	<u>15,488,930</u>	<u>1,825,185</u>	<u>108,476</u>	<u>2,329,410</u>	<u>19,752,001</u>
Expenditures:					
Current:					
Instruction:					
Regular	9,135,125	-	-	85,247	9,220,372
Special.	698,776	-	-	116,869	815,645
Vocational.	285,673	-	-	-	285,673
Adult/continuing	-	-	-	309	309
Other	103,873	-	-	99,621	203,494
Support Services:					
Pupil.	1,202,694	-	-	25,316	1,228,010
Instructional staff	279,556	-	-	38,878	318,434
Board of education	41,958	-	-	-	41,958
Administration.	1,275,302	8,442	-	111,339	1,395,083
Fiscal	489,199	-	-	18,000	507,199
Business	240	-	-	-	240
Operations and maintenance.	1,584,739	-	-	4,676	1,589,415
Pupil transportation	665,865	-	-	102,799	768,664
Central.	2,947	-	-	6,211	9,158
Operation of non-instructional services	2,356	-	-	339,375	341,731
Food service operations	-	-	-	807,482	807,482
Extracurricular activities.	324,713	-	-	288,720	613,433
Facilities acquisition and construction	-	-	602,815	-	602,815
Debt service:					
Principal retirement	-	1,351,525	-	-	1,351,525
Interest and fiscal charges	-	344,292	-	231,284	575,576
Total expenditures	<u>16,093,016</u>	<u>1,704,259</u>	<u>602,815</u>	<u>2,276,126</u>	<u>20,676,216</u>
Excess of revenues over expenditures	<u>(604,086)</u>	<u>120,926</u>	<u>(494,339)</u>	<u>53,284</u>	<u>(924,215)</u>
Other financing sources (uses):					
Transfers in	-	-	-	60,395	60,395
Transfers out.	(60,395)	-	-	-	(60,395)
Proceeds from sale of notes	1,000,000	-	-	-	1,000,000
Total other financing sources (uses)	<u>939,605</u>	<u>-</u>	<u>-</u>	<u>60,395</u>	<u>1,000,000</u>
Net change in fund balances	335,519	120,926	(494,339)	113,679	75,785
Fund balances at beginning of year	(1,987,922)	666,408	3,727,813	(322,098)	2,084,201
Increase (decrease) in reserve for inventory.	(8,679)	-	-	7,374	(1,305)
Fund balances at end of year	\$ (1,661,082)	\$ 787,334	\$ 3,233,474	\$ (201,045)	\$ 2,158,681

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND 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, 2004

Net change in fund balances - total governmental funds	\$	75,785
<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 (\$613,510) exceeds depreciation expense (\$296,323) in the current period.		317,187
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(1,595)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(47,021)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		(1,305)
Proceeds of notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(1,000,000)
Repayment of bond, note, capital lease and lease purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		1,351,525
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(41,304)
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.		(415,912)
Change in net assets of governmental activities	\$	237,360

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND 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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 7,461,388	\$ 8,019,674	\$ 8,085,418	\$ 65,744
Tuition	10,245	11,012	11,102	90
Transportation fees	11,610	12,479	12,581	102
Earnings on investments	35,229	37,865	38,175	310
Classroom materials and fees	84,928	91,283	92,031	748
Other local revenues	24,407	26,233	26,448	215
Intergovernmental - State	6,550,360	7,040,480	7,098,197	57,717
Total revenue	<u>14,178,167</u>	<u>15,239,026</u>	<u>15,363,952</u>	<u>124,926</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,756,593	9,343,230	9,213,761	129,469
Special	675,210	720,445	710,462	9,983
Vocational	283,486	302,478	298,287	4,191
Other	98,719	105,333	103,873	1,460
Support Services:				
Pupil	1,143,842	1,220,472	1,203,560	16,912
Instructional staff	268,092	286,053	282,089	3,964
Board of education	39,877	42,549	41,959	590
Administration	1,207,192	1,288,066	1,270,217	17,849
Fiscal	467,706	499,039	492,124	6,915
Business	228	243	240	3
Operations and maintenance	1,518,396	1,620,119	1,597,669	22,450
Pupil transportation	641,203	684,160	674,680	9,480
Central	2,785	2,972	2,931	41
Operation of non-instructional services	2,239	2,389	2,356	33
Extracurricular activities	312,152	333,064	328,449	4,615
Total expenditures	<u>15,417,720</u>	<u>16,450,612</u>	<u>16,222,657</u>	<u>227,955</u>
Excess of revenues over (under) expenditures	<u>(1,239,553)</u>	<u>(1,211,586)</u>	<u>(858,705)</u>	<u>352,881</u>
Other financing sources (uses):				
Refund of prior year expenditure	92,282	99,187	100,000	813
Transfers (out)	(58,539)	(62,461)	(61,595)	866
Proceeds from sale of notes	922,821	991,869	1,000,000	8,131
Total other financing sources (uses)	<u>956,564</u>	<u>1,028,595</u>	<u>1,038,405</u>	<u>9,810</u>
Net change in fund balance	(282,989)	(182,991)	179,700	362,691
Fund balance at beginning of year	240,977	240,977	240,977	-
Prior year encumbrances appropriated	42,017	42,017	42,017	-
Fund balance at end of year	<u>\$ 5</u>	<u>\$ 100,003</u>	<u>\$ 462,694</u>	<u>\$ 362,691</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents.	\$ 14,573	\$ 48,262
Total assets	14,573	\$ 48,262
Liabilities:		
Accounts payable.	-	\$ 2,744
Due to students	-	45,518
Total liabilities	-	\$ 48,262
Net Assets:		
Held in trust for scholarships	14,573	
Total net assets	\$ 14,573	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 145
Total additions.	145
Reductions:	
Change in net assets	-
Net assets at beginning of year	14,428
Net assets at end of year.	\$ 14,573

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Poland Local School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms by the citizens of the District.

The District serves an area of approximately 25 square miles in Mahoning County, including all of the village of Poland and portions of surrounding townships.

The District is the 203rd largest in the State of Ohio (among the 613 public school districts in the state) in terms of enrollment. It currently operates 4 elementary schools, 1 middle school, and 1 comprehensive high school. The District is staffed by 151 non-certificated and 151 certificated personnel to provide services to approximately 2,507 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities 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 comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food 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' governing 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of 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:

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS, a Council of Governments (the "COG"), is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports the COG based upon a per pupil charge, which was \$40 for fiscal year 2004. The District paid \$63,041 to the COG during fiscal year 2004. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding.

Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Mahoning County Career & Technical Center

The Mahoning County Career & Technical 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 Mahoning County Career & Technical Center, at 7300 North Palmyra Road, Canfield, Ohio 44406.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Mahoning County School Employees Insurance Consortium

The Mahoning County School Employees Insurance Consortium is a shared risk pool comprised of fourteen Mahoning County School Districts. The consortium is governed by an assembly which consists of one representative from each participating School District (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operations of the Consortium. All Consortium revenues are generated from charges for services and remitted to the fiscal agent Austintown Local School District. The fiscal agent will then remit the charges for services to Professional Risk Management (PRM), who acts in the capacity of a third-party administrator (TPA) for claims processing.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 has no 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.

Bond Retirement Fund - A fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation which is levied for debt charges on bonds or loans, shall be paid into this fund.

Building Fund - A fund used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

The other governmental funds of the District account for (a) financial resources to be used for the acquisition, construction or improvement of capital facilities; (b) activity relating to the repayment of general long-term debt principal, interest and related costs; (c) for grants and other resources whose use is restricted to a particular purpose, and; (d) food service and uniform school supplies operations.

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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

C. Basis of Presentation and Measurement Focus

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

The 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.

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 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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities 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 budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at the legal level of budgetary control may only be made by resolution of the Board of Education.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Tax Budget:

Prior to January 15, 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. By no later than January 20, the Board-adopted budget is filed with the Mahoning County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. 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 as the original budget amounts reflect the amounts in the first Amended Certificate issued during the fiscal year. The amounts reported as the final budget amounts reflect the amounts in the final Amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. 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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

During fiscal year 2004, investments were limited to 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 2004. 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, 2004.

While common stock is not an allowable investment according to Ohio Statute, the District has received stock from the demutualization of the Anthem Insurance Company. No public funds were used to acquire this stock. On June 28, 2004, the District sold all of these shares of common stock.

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 2004 amounted to \$63,153, which includes \$49,916 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 fiscal year-end is provided in Note 4.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories for governmental funds are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

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 donated food and purchased food.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

H. Capital Assets

General capital assets are those assets specifically related to governmental 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. The District maintains a capitalization threshold of \$2,000. 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	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. 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, any employee at least 50 years old with at least 10 years of service, or any employee with at least 20 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, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. 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.

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, BWC refunds, and a fund equity designation has been established for budget stabilization.

L. 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 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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

M. 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.

N. 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.

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds. See Note 17 for details.

P. 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.

Q. 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 2004.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 1,661,082
 <u>Nonmajor Funds</u>	
Food Service	37,155
Management Information System	183
Miscellaneous State Grants	118
Title I	776
Permanent Improvement	381,712

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 are a result of 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;

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 the 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.

Cash on hand: At fiscal year-end, the District had \$75 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Investments".

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 Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$4,515,644 and the bank balance was \$4,165,695.

1. \$100,000 was covered by federal depository insurance; and

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

2. \$4,065,695 was uninsured and uncollateralized 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. The District had \$745,500 invested in STAR Ohio at June 30, 2004.

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	\$ 5,261,219	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(745,500)	745,500
Cash on hand	(75)	-
GASB Statement No. 3	\$ 4,515,644	\$ 745,500

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS

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

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	<u>\$ 60,395</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 are 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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Mahoning County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 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 deterred revenue.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 310,858,110	92.37	\$ 316,685,040	93.04
Public utility personal property	10,702,140	3.18	10,448,320	3.07
Tangible personal property	<u>14,983,720</u>	<u>4.45</u>	<u>13,251,508</u>	<u>3.89</u>
Total assessed valuation	<u>\$ 336,543,970</u>	<u>100.00</u>	<u>\$ 340,384,868</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 45.60		\$ 52.30	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 11,927,733
Intergovernmental	21,984
Accrued interest	<u>433</u>
Total	<u>\$ 11,950,150</u>

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

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

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

Governmental Activities:	<u>Balance 06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 304,780	\$ -	\$ -	\$ 304,780
Construction-in-progress	1,928,078	602,815	-	2,530,893
Total capital assets, not being depreciated	<u>2,232,858</u>	<u>602,815</u>	<u>-</u>	<u>2,835,673</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	392,825	-	-	392,825
Building and improvements	7,559,551	-	-	7,559,551
Furniture and equipment	1,130,465	10,695	(6,676)	1,134,484
Vehicles	1,563,790	-	-	1,563,790
Total capital assets, being depreciated	<u>10,646,631</u>	<u>10,695</u>	<u>(6,676)</u>	<u>10,650,650</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(392,825)	-	-	(392,825)
Building and improvements	(4,553,689)	(143,082)	-	(4,696,771)
Furniture and equipment	(886,176)	(42,018)	5,081	(923,113)
Vehicles	(951,812)	(111,223)	-	(1,063,035)
Total accumulated depreciation	<u>(6,784,502)</u>	<u>(296,323)</u>	<u>5,081</u>	<u>(7,075,744)</u>
Governmental activities capital assets, net	<u>\$ 6,094,987</u>	<u>\$ 317,187</u>	<u>\$ (1,595)</u>	<u>\$ 6,410,579</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 134,514
Special	2,103
Vocational	4,850
<u>Support Services:</u>	
Pupil	1,805
Instructional Staff	8,743
Administration	8,513
Fiscal	875
Operations and Maintenance	2,586
Pupil Transportation	112,018
Extracurricular Activities	9,960
Food Service Operations	<u>10,356</u>
Total depreciation expense	<u>\$ 296,323</u>

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LEASE - PURCHASE AGREEMENT

On May 1, 2002, the District entered into a \$5,500,000 lease-purchase agreement with First Place Bank to finance the construction, enlarging or other improvement, furnishing and equipping, lease and eventual acquisition, of various building improvements on District sites. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2004, the District made \$117,762 in principal payments and \$265,959 in interest payments on the lease-purchase agreement.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District. General capital assets consisting of construction in progress have been capitalized in the governmental activities of the District in the amount of \$2,530,893. This amount represents the costs of the Project funded by the lease-purchase agreement that were incurred as of June 30, 2004.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30	Amount
2005	\$ 383,721
2006	383,721
2007	383,721
2008	383,721
2009	383,721
2010 - 2014	1,918,605
2015 - 2019	1,918,605
2020 - 2024	1,918,605
2025 - 2027	1,151,163
Total	8,825,583
Less amount representing interest	(3,570,500)
Present value of minimum lease payments	\$ 5,255,083

In conjunction with the lease-purchase agreement, the District entered into a ground-lease agreement whereby the District subleases the real property upon which the Project is being constructed to the First Place Bank. The District is the lessor and First Place Bank is the lessee under the ground-lease agreement. The ground-lease commenced on May 17, 2002 and terminates on May 1, 2032 or earlier upon the termination of the lease-purchase agreement or the District's exercise to take advantage of the purchase option.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into a capitalized lease for the acquisition of computer equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets consisting of computer equipment have been capitalized in the amount of \$189,440. No liability exists as of June 30, 2004.

NOTE 11 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>06/30/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>06/30/04</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
1995 issue current interest bonds	\$ 2,055,000	\$ -	\$ -	\$ 2,055,000	\$ -
1995 issue capital appreciation bonds	274,324	22,253	(105,000)	191,577	105,000
1997 issue current interest bonds	3,095,000	-	(95,000)	3,000,000	105,000
1997 issue capital appreciation bonds	<u>103,352</u>	<u>22,284</u>	<u>-</u>	<u>125,636</u>	<u>-</u>
Total general obligation bonds payable	<u>5,527,676</u>	<u>44,537</u>	<u>(200,000)</u>	<u>5,372,213</u>	<u>210,000</u>
<u>Notes Payable:</u>					
General obligation energy conservation notes	33,763	-	(33,763)	-	-
Energy conservation notes	490,772	-	(109,060)	381,712	109,060
Tax anticipation note	<u>-</u>	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>524,535</u>	<u>1,000,000</u>	<u>(1,142,823)</u>	<u>381,712</u>	<u>109,060</u>
<u>Other Long-Term Obligations:</u>					
Lease purchase agreement	5,372,845	-	(117,762)	5,255,083	127,344
Compensated absences	<u>1,138,434</u>	<u>567,707</u>	<u>(206,566)</u>	<u>1,499,575</u>	<u>139,067</u>
Total other long-term obligations	<u>6,511,279</u>	<u>567,707</u>	<u>(324,328)</u>	<u>6,754,658</u>	<u>266,411</u>
Total governmental activities	<u>\$ 12,563,490</u>	<u>\$ 1,612,244</u>	<u>\$ (1,667,151)</u>	<u>\$ 12,508,583</u>	<u>\$ 585,471</u>

General Obligation Bonds: The District issued general obligation bonds in 1995 to provide funds for the acquisition and construction of facilities and equipment. The general obligation bonds were issued on September 13, 1995, mature on December 1, 2016, and have a variable interest rate of 4.10% - 5.85%.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: The District issued general obligation bonds in 1997 to provide funds for the acquisition and construction of facilities and equipment. The general obligation bonds were issued on November 12, 1997, mature on December 1, 2022, and have a variable interest rate of 4.00% - 5.30%.

General Obligation Energy Conservation Notes: The District issued general obligation energy conservation notes in 1996 to provide for energy improvements to District buildings. The general obligation energy conservation notes were issued on April 22, 1996, mature on April 1, 2004, and have an interest rate of 5.30%.

Energy Conservation Notes: The District issued energy conservation notes in 1998 to provide for energy improvements to District buildings. The energy conservation notes were issued on September 25, 1997, mature on October 1, 2007, and have an interest rate of 4.70%.

Tax Anticipation Note: The District issued a tax anticipation note in 2003 for future tax revenues to be received by the District. The tax anticipation note was issued on January 9, 2004, matured on April 9, 2004, and had an interest rate of 1.50%.

Lease Purchase Agreement: The District entered into a lease purchase agreement in 2002 to finance the construction, enlarging or other improvement, furnishing and equipping, lease and eventual acquisition, of various building improvements on District sites. The lease purchase agreement was entered into on May 1, 2002 and commences on May 1, 2027.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

<u>Year Ended</u>	General Obligation Bonds-Series 1995					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ -	\$ 180,579	\$ 180,579	\$ 105,000	\$ -	\$ 105,000
2006	-	183,179	183,179	105,000	-	105,000
2007	110,000	119,355	229,355	-	-	-
2008	145,000	113,085	258,085	-	-	-
2009	155,000	104,820	259,820	-	-	-
2010 - 2014	935,000	378,248	1,313,248	-	-	-
2015 - 2018	710,000	84,533	794,533	-	-	-
Total	\$2,055,000	\$ 1,163,799	\$ 3,218,799	\$ 210,000	\$ -	\$ 210,000

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year Ended</u>	General Obligation Bonds-Series 1997					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 105,000	\$ 152,871	\$ 257,871	\$ -	\$ -	\$ -
2006	110,000	148,033	258,033	-	-	-
2007	120,000	142,740	262,740	-	-	-
2008	125,000	136,981	261,981	-	-	-
2009	135,000	130,739	265,739	-	-	-
2010 - 2014	320,000	620,631	940,631	440,000	-	440,000
2015 - 2019	1,010,000	425,856	1,435,856	-	-	-
2020 - 2023	1,075,000	118,324	1,193,324	-	-	-
Total	<u>\$3,000,000</u>	<u>\$ 1,876,175</u>	<u>\$ 4,876,175</u>	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>

<u>Year Ended</u>	Energy Conservation Notes		
	Principal	Interest	Total
2005	\$ 109,060	\$ 15,881	\$ 124,941
2006	109,060	10,082	119,142
2007	109,060	2,877	111,937
2008	54,532	1,446	55,978
Total	<u>\$ 381,712</u>	<u>\$ 30,286</u>	<u>\$ 411,998</u>

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 0.1% of the property valuation of the District and that energy conservation indebtedness shall not exceed 0.9% of the total assessed valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted legal debt margin of \$25,498,714 (including available funds of \$787,344), an unvoted legal debt margin of \$340,385, and an energy conservation legal debt margin of \$2,681,752.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, boilers, electronic data processing equipment and instruments. Real property, building and contents are fully insured.

The business auto coverage limits are \$1,000,000 for liability and bodily injury for each person and each accident. The property damage liability limit is \$1,000,000. The uninsured bodily injury and under insured motorists has a liability limit of \$1,000,000 each person and each accident. Comprehensive has a \$100 deductible and collision has a \$500 deductible.

The District has liability insurance coverage limits of \$1,000,000 per claim and \$5,000,000 annual aggregate.

The District has a liability limit of \$500,000 for boiler insurance with a deductible of \$1,000.

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

B. Employee Group Health Insurance

The District has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, prescription drug, and dental benefits. The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The District pays medical/surgical premiums of \$983.42 for family coverage and \$407.20 for single coverage per employee per month. The District pays \$61.54 for family dental coverage or \$25.18 for single dental coverage and \$181.79 for family and \$89.49 for single prescription drug coverage per month.

C. Workers' Compensation

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

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT - (Continued)

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

NOTE 13 - 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 10% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$265,746, \$263,542, and \$249,259, respectively; 45.13% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$94,674 represents the unpaid contribution for fiscal year 2004.

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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. 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 10% 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 years 2004 and 2003, 13% 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 pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,155,542, \$1,163,129, and \$1,132,206, respectively; 83.42% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$177,899 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$7,623 made by the District and \$7,763 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - 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.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 \$82,539 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$139,498 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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	\$ 179,700
Net adjustment for revenue accruals	124,978
Net adjustment for expenditure accruals	92,564
Net adjustment for other sources/uses	(98,800)
Adjustment for encumbrances	<u>37,077</u>
GAAP basis	<u>\$ 335,519</u>

NOTE 16 - 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 currently a party to any legal proceedings.

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - CONTINGENCIES - (Continued)

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 17 - 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, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Reserved for BWC Refunds</u>	<u>Designated for Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (604,735)	\$ -	\$ 77,235	\$ 147,765
Current year set-aside requirement	355,976	355,976	-	100,000
Current year offsets	-	(194,949)	-	-
Qualifying disbursements	<u>(490,372)</u>	<u>(484,067)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (739,131)</u>	<u>\$ (323,040)</u>	<u>\$ 77,235</u>	<u>\$ 247,765</u>
Balance carried forward to FY 2005	<u>\$ (739,131)</u>	<u>\$ -</u>	<u>\$ 77,235</u>	<u>\$ 247,765</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restrict 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 instructional materials reserve and the capital acquisition reserve. The Board of Education resolved to maintain the budget reserve, which will be shown as designated fund balance in the general fund.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may be used to reduce the set-aside requirements of future years, but GAAP prohibits showing negative reserves on the balance sheet. Therefore, negative amounts are not presented on the balance sheet.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	<u>\$ 77,235</u>
Total restricted assets	<u>\$ 77,235</u>

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$45,096		\$30,470
National School Lunch Program	048298-LLP4-2004	10.555	\$61,939		\$61,939	
Total U.S. Department of Agriculture - Nutrition Cluster			61,939	45,096	61,939	30,470
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education.</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)					30,533	
	6B-SF-2003-P	84.027				
	6B-SF-2003-P	84.027				
	6B-SF-2004-P	84.027	322,981		286,325	
Total Special Education Cluster			322,981		316,858	
Grants to Local Educational Agencies (ESEA Title I)						
	C1-S1-2003	84.010	5,478		10,061	
	C1-S1-2004	84.010	82,118		71,226	
Total Grants to Local Educational Agencies			87,596		81,287	
Innovative Educational Program Strategies						
	C2-S1-2002	84.298			1,867	
	C2-S1-2003	84.298			2,642	
	C2-S1-2004	84.298	14,797		12,832	
Total Innovative Educational Program Strategies			14,797		17,341	
Title II-D Technology Literacy Challenge Fund Grant						
	TJ-S1-2003	84.318			372	
	TJ-S1-2004	84.318	1,640		1,317	
Total Title II-D Technology Literacy Challenge Fund Grant			1,640		1,689	
Drug-Free Schools Grant						
	DR-S1-2003	84.186			1,725	
	DR-S1-2004	84.186	7,005		5,730	
Total Drug Free Schools Grant			7,005		7,455	
Title II-A Improving Teacher Quality						
	TR-S1-2003	84.367			12,159	
	TR-S1-2004	84.367	55,708		45,683	
Total Title II-A Improving Teacher Quality			55,708		57,842	
School Renovation Idea & Tech	AT-S3-2003	84.352			17	
TOTAL DEPARTMENT OF EDUCATION			489,727		482,489	
TOTAL			\$551,666	\$45,096	\$544,428	\$30,470

The accompanying notes to this schedule are an integral part of this schedule

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY
FISCAL YEAR ENDED JUNE 30, 2004**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Poland Local School District
Mahoning County
30 Riverside Drive
Poland, Ohio 44514

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Poland Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 29, 2005



Auditor of State Betty Montgomery

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

Poland Local School District
Mahoning County
30 Riverside Drive
Poland, Ohio 44515

To the Board of Education:

Compliance

We have audited the compliance of Poland Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its' major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, Poland Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 29, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505**

**POLAND LOCAL SCHOOL DISTRICT
MAHONING COUNTY
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs:	Title VI-B/84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	
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None

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	
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None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**POLAND 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
AUGUST 18, 2005**