



**Auditor of State  
Betty Montgomery**



**LABRAE LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

LaBrae Local School District  
Trumbull County  
1001 North Leavitt Road  
Leavittsburg, Ohio 44483

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 LaBrae Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of LaBrae Local School District, Trumbull County, Ohio, as of June 30, 2005, 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.

As described in Note 3, the District has restated fund balances due to implementation of GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditures 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 expenditures 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

May 15, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the LaBrae Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$918,239 which represents a 3.17% increase from 2004.
- General revenues accounted for \$11,926,821 in revenue or 82.95% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,451,773 or 17.05% of total revenues of \$14,378,594.
- The District had \$13,460,355 in expenses related to governmental activities; only \$2,451,773 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,926,821 were adequate to provide for these programs.
- The District has three major governmental funds. They are the general fund, debt service fund and classroom facilities fund. The general fund had \$11,654,639 in revenues and other financing sources and \$11,763,140 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$110,646 from \$2,155,496 to \$2,044,850.
- The debt service fund is a major fund of the District. The debt service fund had \$697,068 in revenues and \$669,091 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$27,977 from \$184,242 to \$212,219.
- The classroom facilities fund is a major fund of the District. The classroom facilities fund had \$1,404,229 in revenues and \$13,076,251 in expenditures. During fiscal 2004, the classroom facilities fund's fund balance decreased \$11,672,022 from \$17,749,409 to \$6,077,387.

**Using These Basic Financial Statements (BFS)**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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**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 2005?" 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.

The statement of net assets and the statement of activities, include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, food service operations and uniform school supplies activities.

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, debt service fund and classroom facilities fund. All other governmental funds are considered nonmajor.

***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.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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 22-49 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 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities 2005	Governmental Activities 2004
<b><u>Assets</u></b>		
Current and other assets	\$ 16,700,984	\$ 29,710,097
Capital assets	<u>28,761,976</u>	<u>14,155,175</u>
Total assets	<u>45,462,960</u>	<u>43,865,272</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,950,526	5,555,111
Long-term liabilities	<u>9,611,412</u>	<u>9,327,378</u>
Total liabilities	<u>15,561,938</u>	<u>14,882,489</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	28,752,718	14,127,402
Restricted	832,772	12,762,766
Unrestricted	<u>315,532</u>	<u>2,092,615</u>
Total net assets	<u>\$ 29,901,022</u>	<u>\$ 28,982,783</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$29,901,022. Of this total \$315,532 is unrestricted in use.

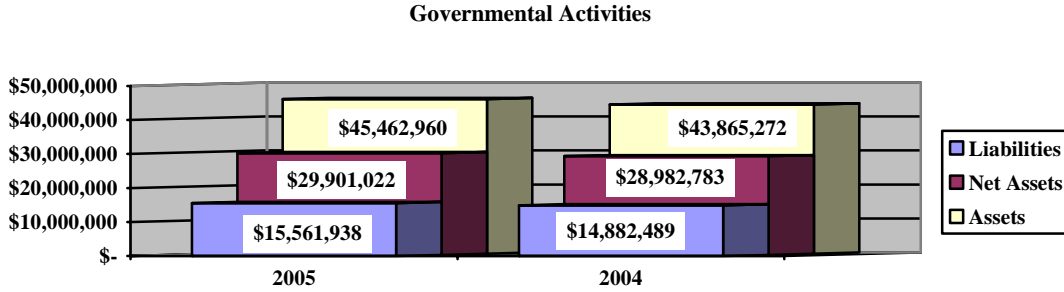
At fiscal year-end, capital assets represented 63.26% of total assets. Capital assets include land, other improvements, buildings, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$28,752,718. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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A portion of the District's net assets, \$832,772, represents resources that are subject to external restriction on how they may be used. Of this total, \$446,044 is restricted for debt service and \$386,728 is restricted for other purposes.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2005 and 2004:



The table below shows the change in net assets for fiscal years 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,198,588	\$ 614,876
Operating grants and contributions	1,253,185	1,154,543
General revenues:		
Property taxes	4,183,381	4,018,212
Grants and entitlements	7,251,819	7,274,099
Investment earnings	477,750	51,019
Miscellaneous	13,871	64,647
<b>Total revenues</b>	<b>14,378,594</b>	<b>13,177,396</b>

**LABRAE LOCAL SCHOOL DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,928,341	\$ 6,089,771
Special	1,658,737	1,658,085
Vocational	79,528	127,505
Other	328,764	272,303
Support services:		
Pupil	492,217	447,814
Instructional staff	346,577	337,253
Board of education	47,793	41,266
Administration	1,106,389	1,083,945
Fiscal	285,223	272,905
Business	52	-
Operations and maintenance	979,031	965,320
Pupil transportation	707,474	679,757
Central	167,180	201,225
Operations of non-instructional services	52,087	2,234
Food service operations	495,199	489,051
Extracurricular activities	301,601	261,655
Interest and fiscal charges	<u>484,162</u>	<u>380,571</u>
Total expenses	<u>13,460,355</u>	<u>13,310,660</u>
Change in net assets	918,239	(133,264)
Net assets at beginning of year	<u>28,982,783</u>	<u>29,116,047</u>
Net assets at end of year	<u>\$ 29,901,022</u>	<u>\$ 28,982,783</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$918,239. Total governmental expenses of \$13,460,355 were offset by program revenues of \$2,451,773 and general revenues of \$11,926,821. Program revenues supported 18.21% 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 79.53% of total governmental revenue.

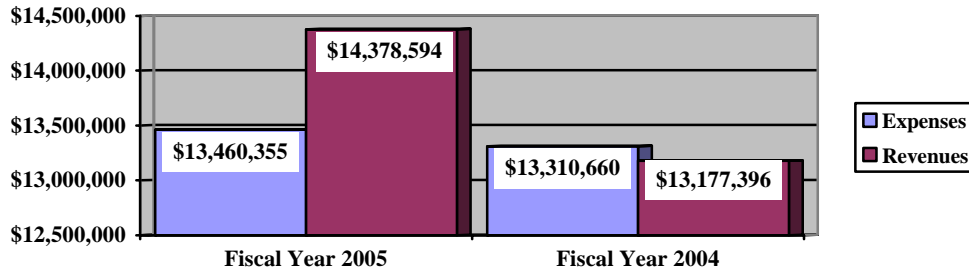
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,995,370 or 59.40% of total governmental expenses for fiscal year 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

**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**

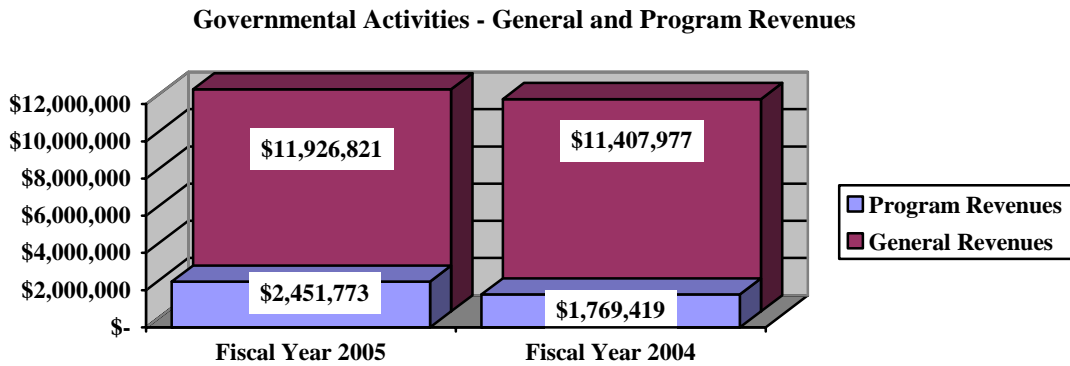
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,928,341	\$ 4,889,768	\$ 6,089,771	\$ 5,620,640
Special	1,658,737	1,173,475	1,658,085	1,182,587
Vocational	79,528	79,528	127,505	127,505
Other	328,764	328,764	272,303	260,303
Support services:				
Pupil	492,217	448,778	447,814	447,814
Instructional staff	346,577	195,718	337,253	151,544
Board of education	47,793	47,652	41,266	41,266
Administration	1,106,389	1,086,054	1,083,945	1,021,400
Fiscal	285,223	281,377	272,905	268,637
Business	52	52	-	-
Operations and maintenance	979,031	954,596	965,320	940,892
Pupil transportation	707,474	672,972	679,757	679,757
Central	167,180	150,180	201,225	195,707
Operations of non-instructional services	52,087	48,977	2,234	1,028
Extracurricular activities	301,601	213,479	261,655	197,654
Food service operations	495,199	(46,950)	489,051	23,936
Interest and fiscal charges	484,162	484,162	380,571	380,571
<b>Total expenses</b>	<u>\$ 13,460,355</u>	<u>\$ 11,008,582</u>	<u>\$ 13,310,660</u>	<u>\$ 11,541,241</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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The dependence upon tax and other general revenues for governmental activities is apparent, 80.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.79%. 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 2005 and 2004.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$8,866,158, which is lower than last year's total of \$21,432,862. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 2,044,850	\$ 2,155,496	\$ (110,646)
Debt service	212,219	184,242	27,977
Classroom Facilities	6,077,387	17,749,409	(11,672,022)
Other Governmental	<u>531,702</u>	<u>1,343,715</u>	<u>(812,013)</u>
Total	<u>\$ 8,866,158</u>	<u>\$ 21,432,862</u>	<u>\$ (12,566,704)</u>

**General Fund**

The District's general fund balance decreased \$110,646. The table that follows assists in illustrating the financial activities of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	2005 <u>Amount</u>	(Restated) 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 3,072,943	\$ 3,006,161	\$ 66,782	2.22 %
Tuition	644,448	128,932	515,516	399.84 %
Earnings on investments	17,145	31,250	(14,105)	(45.14) %
Intergovernmental	7,216,642	7,038,128	178,514	2.54 %
Other revenues	<u>98,949</u>	<u>149,106</u>	<u>(50,157)</u>	(33.64) %
Total	<u>\$ 11,050,127</u>	<u>\$ 10,353,577</u>	<u>\$ 696,550</u>	6.73 %
<b><u>Expenditures</u></b>				
Instruction	\$ 7,116,049	\$ 7,041,694	\$ 74,355	1.06 %
Support services	3,636,369	3,878,867	(242,498)	(6.25) %
Operation of non-instructional services	2,814	1,028	1,786	173.74 %
Extracurricular activities	212,892	197,677	15,215	7.70 %
Facilities acquisition and construction	660,886	162,468	498,418	306.78 %
Debt service	<u>134,130</u>	<u>162,468</u>	<u>(28,338)</u>	(17.44) %
Total	<u>\$ 11,763,140</u>	<u>\$ 11,444,202</u>	<u>\$ 318,938</u>	2.79 %

The District began open enrollment in fiscal year 2005 resulting in an increase in tuition revenues of \$515,516, or 399.84% from 2004. Facilities acquisition and construction expenditures increased by \$498,418, or 306.78%, in 2005 due to the start of construction on athletic facilities.

***Debt Service Fund***

The debt service fund had \$697,068 in revenues and \$669,091 in expenditures. During fiscal 2005, the debt service fund's fund balance increased \$27,977 from \$184,242 to \$212,219.

***Classroom Facilities Fund***

The classroom facilities fund had \$1,404,229 in revenues and \$13,076,251 in expenditures. During fiscal 2005, the classroom facilities fund's fund balance decreased \$11,672,022 from \$17,749,409 to \$6,077,387.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,343,914, which was higher than the original budgeted revenues estimate of \$11,257,185. Actual revenues and other financing sources for fiscal 2005 was \$12,043,236. This represents a \$300,678 decrease from final budgeted revenues

General fund final appropriations (appropriated expenditures plus other financing uses) were \$12,887,683, which was higher than the original budgeted appropriations estimate of \$12,104,554. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$12,218,009, which was \$669,674 less than the final budget appropriations.

**LABRAE LOCAL SCHOOL DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$28,761,976 invested in land, other improvements, buildings, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 266,417	\$ 266,417
Other improvements	12,052	12,835
Buildings	1,509,703	1,591,928
Furniture and equipment	1,199,498	1,381,245
Vehicles	538,318	648,242
Construction in progress	<u>25,235,988</u>	<u>10,254,508</u>
<b>Total</b>	<u><u>\$ 28,761,976</u></u>	<u><u>\$ 14,155,175</u></u>

The primary increase occurred in CIP which includes a new building project. Total additions to capital assets for 2005 were \$15,030,538, total disposals were \$32,143 (net of accumulated depreciation) and depreciation expense was \$391,594. The overall increase in capital assets of \$14,606,801 is primarily due to the construction in progress going on within the District in fiscal 2005.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2005, the District had \$8,049,098 in general obligation bonds, \$570,482 in a lease purchase agreement and \$9,258 in an asbestos loan outstanding. Of this total, \$343,258 is due within one year and \$8,285,580 is due within greater than one year. The following table summarizes the bonds, lease agreement and asbestos loan outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental	Governmental
	Activities	Activities
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 8,049,098	\$ 8,311,515
Lease purchase agreement	570,482	-
Asbestos loan	<u>9,258</u>	<u>27,773</u>
<b>Total</b>	<u><u>\$ 8,628,838</u></u>	<u><u>\$ 8,339,288</u></u>

At June 30, 2005, the District's overall legal debt margin was \$2,655,678 and an unvoted debt margin of \$116,584.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Current Financial Related Activities**

The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize levy millage requests from our citizens. As the preceding information shows, the general fund's cash balance (both restricted and unrestricted) was \$3,298,833 at June 30, 2005. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance.

Our District heavily depends on its property taxpayers. Our community's support was recently measured in the fall of 2004 when the community passed a 3 mill permanent improvement issue.

Continued legislative and judicial actions have occurred that will have a major impact on our District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional education system, one that was neither "adequate" nor "equitable". The state has not yet developed a school funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the state may not have the ability to fully fund the previously approved subsidies for primary and secondary in the state budget. The biannual budget approved in the state for fiscal year 2006 and 2007 did not prove helpful to the funding situation for the LaBrae Local Schools. Changes to the state's school foundation funding formula did not include additional revenue, and in fact, caused a decline in foundation funding for 2005.

Declining enrollment over the past ten years is a trend that has received the attention of the Board of Education and Administration. Reduced student counts lead to staffing reduction and less state funding. Each of these factors negatively impacts the operations of the District.

Another challenge facing the District is the final completion of our new 3 through 12 school building. Costs not covered by the bond issue could exceed 3.5 million dollars. The Board and Administration have set aside money for part of the additional cost, but must find an additional funding source to complete the project.

The District continues its commitment to educational and financial excellence. The budgetary and internal controls utilized by the District are well regarded by the Auditor of State, as exemplified by the unqualified audit opinions that have been received. The District is committed to living within its financial means and working with the community it serves in order to gather adequate resources to support the educational program.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Carol Jones, Treasurer, LaBrae Local School District, 1001 North Leavitt Road, Leavittsburg, Ohio 44430.



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

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 10,215,828
Cash with escrow agent . . . . .	496,601
Receivables:	
Taxes . . . . .	5,406,023
Accounts . . . . .	5,851
Intergovernmental . . . . .	326,755
Accrued interest . . . . .	192,491
Prepayments . . . . .	39,357
Materials and supplies inventory. . . . .	18,078
Capital assets:	
Land and construction in progress . . . . .	25,502,405
Depreciable capital assets, net . . . . .	3,259,571
Total capital assets, net . . . . .	28,761,976
 Total assets. . . . .	 45,462,960
 <b>Liabilities:</b>	
Accounts payable. . . . .	28,609
Contracts payable. . . . .	19,419
Retainage payable. . . . .	496,601
Accrued wages and benefits . . . . .	1,109,878
Pension obligation payable. . . . .	247,767
Intergovernmental payable . . . . .	92,196
Deferred revenue . . . . .	3,927,270
Accrued interest payable . . . . .	28,786
Long-term liabilities:	
Due within one year. . . . .	437,264
Due within more than one year . . . . .	9,174,148
Total long-term liabilities . . . . .	9,611,412
 Total liabilities . . . . .	 15,561,938
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	28,752,718
Restricted for:	
Debt service. . . . .	446,044
Classroom facilities maintenance. . . . .	206,133
State funded programs. . . . .	35,937
Federally funded programs. . . . .	2,797
Student activities. . . . .	23,245
Public school preschool . . . . .	72,180
Other purposes . . . . .	46,436
Unrestricted. . . . .	315,532
Total restricted net assets . . . . .	1,146,372
 Total net assets . . . . .	 \$ 29,901,022

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 3,252,397	\$ 207,709	\$ 6,069,675	\$ 639,611	\$ 10,169,392
Cash with escrow agent . . . . .	-	-	496,601	-	496,601
Receivables:					
Taxes . . . . .	4,122,677	871,305	-	412,041	5,406,023
Accounts . . . . .	5,016	-	-	835	5,851
Intergovernmental . . . . .	-	-	195,990	130,765	326,755
Accrued interest . . . . .	130,989	-	61,502	-	192,491
Interfund loans . . . . .	97,000	-	-	-	97,000
Prepayments . . . . .	30,745	-	8,612	-	39,357
Materials and supplies inventory . . . . .	7,305	-	-	10,773	18,078
Restricted assets:					
Equity in pooled cash and investments . . . . .	46,436	-	-	-	46,436
Total assets . . . . .	<u>\$ 7,692,565</u>	<u>\$ 1,079,014</u>	<u>\$ 6,832,380</u>	<u>\$ 1,194,025</u>	<u>\$ 16,797,984</u>
		(28,786)			
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 21,288	\$ -	\$ 600	\$ 6,721	\$ 28,609
Contracts payable . . . . .	19,119	-	300	-	19,419
Retainage payable . . . . .	-	-	496,601	-	496,601
Accrued wages and benefits . . . . .	1,002,048	-	-	107,830	1,109,878
Compensated absences payable . . . . .	75,074	-	-	-	75,074
Pension obligation payable . . . . .	215,626	-	-	32,141	247,767
Intergovernmental payable . . . . .	83,474	-	-	8,722	92,196
Interfund loan payable . . . . .	-	-	-	97,000	97,000
Deferred revenue . . . . .	4,231,086	866,795	257,492	409,909	5,765,282
Total liabilities . . . . .	<u>5,647,715</u>	<u>866,795</u>	<u>754,993</u>	<u>662,323</u>	<u>7,931,826</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	69,754	-	2,564,208	2,221	2,636,183
Reserved for budget stabilization . . . . .	46,436	-	-	-	46,436
Reserved for materials and supplies inventory . . . . .	7,305	-	-	10,773	18,078
Reserved for property tax unavailable for appropriation . . . . .	21,341	4,510	-	2,132	27,983
Reserved for debt service . . . . .	-	207,709	-	-	207,709
Reserved for prepayments . . . . .	30,745	-	8,612	-	39,357
Unreserved, undesignated, reported in:					
General fund . . . . .	1,869,269	-	-	-	1,869,269
Special revenue funds . . . . .	-	-	-	467,674	467,674
Capital projects funds . . . . .	-	-	3,504,567	48,902	3,553,469
Total fund balances . . . . .	<u>2,044,850</u>	<u>212,219</u>	<u>6,077,387</u>	<u>531,702</u>	<u>8,866,158</u>
Total liabilities and fund balances . . . . .	<u>\$ 7,692,565</u>	<u>\$ 1,079,014</u>	<u>\$ 6,832,380</u>	<u>\$ 1,194,025</u>	<u>\$ 16,797,984</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	8,866,158
<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.			28,761,976
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,450,770	
Accrued interest		191,252	
Intergovernmental revenue		195,990	
Total			1,838,012
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.			(28,786)
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		8,049,098	
Compensated absences		907,500	
Lease-purchase agreement		570,482	
Asbestos abatement note		9,258	
Total			(9,536,338)
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>29,901,022</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 3,072,943	\$ 625,290	\$ -	\$ 335,898	\$ 4,034,131
Tuition. . . . .	644,448	-	-	-	644,448
Earnings on investments. . . . .	17,145	-	278,997	1,527	297,669
Charges for services . . . . .	-	-	-	219,956	219,956
Classroom materials and fees . . . . .	12,902	-	-	17,676	30,578
Extracurricular. . . . .	-	-	-	153,891	153,891
Other local revenues. . . . .	86,047	-	-	77,539	163,586
Intergovernmental - State . . . . .	7,188,928	71,778	1,125,232	180,500	8,566,438
Intergovernmental - Federal. . . . .	27,714	-	-	1,105,962	1,133,676
Total revenue . . . . .	<u>11,050,127</u>	<u>697,068</u>	<u>1,404,229</u>	<u>2,092,949</u>	<u>15,244,373</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	5,555,006	-	-	318,784	5,873,790
Special. . . . .	1,159,360	-	-	474,277	1,633,637
Vocational. . . . .	72,919	-	-	-	72,919
Other . . . . .	328,764	-	-	-	328,764
Support Services:					
Pupil. . . . .	419,215	-	-	45,000	464,215
Instructional staff . . . . .	150,771	-	-	141,878	292,649
Board of education . . . . .	47,793	-	-	-	47,793
Administration. . . . .	1,053,688	-	-	19,305	1,072,993
Fiscal . . . . .	259,289	11,523	-	9,260	280,072
Business . . . . .	52	-	-	-	52
Operations and maintenance. . . . .	983,821	-	-	-	983,821
Pupil transportation . . . . .	572,079	-	-	35,741	607,820
Central. . . . .	149,661	-	-	17,000	166,661
Operation of non-instructional services . . . . .	2,814	-	-	2,906	5,720
Food service operations . . . . .	-	-	-	517,204	517,204
Extracurricular activities. . . . .	212,892	-	-	80,839	293,731
Facilities acquisition and construction . . . . .	660,886	-	13,076,251	1,239,168	14,976,305
Debt service:					
Principal retirement . . . . .	26,000	308,515	-	-	334,515
Interest and fiscal charges . . . . .	108,130	349,053	-	-	457,183
Total expenditures . . . . .	<u>11,763,140</u>	<u>669,091</u>	<u>13,076,251</u>	<u>2,901,362</u>	<u>28,409,844</u>
Excess of revenues over (under) expenditures.	<u>(713,013)</u>	<u>27,977</u>	<u>(11,672,022)</u>	<u>(808,413)</u>	<u>(13,165,471)</u>
<b>Other financing sources:</b>					
Sale of capital assets . . . . .	8,030	-	-	-	8,030
Lease-purchase agreement . . . . .	596,482	-	-	-	596,482
Total other financing sources . . . . .	<u>604,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>604,512</u>
Net change in fund balances . . . . .	(108,501)	27,977	(11,672,022)	(808,413)	(12,560,959)
<b>Fund balances at beginning of year (restated).</b>	2,155,496	184,242	17,749,409	1,343,715	21,432,862
<b>Decrease in reserve for inventory. . . . .</b>	(2,145)	-	-	(3,600)	(5,745)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,044,850</u>	<u>\$ 212,219</u>	<u>\$ 6,077,387</u>	<u>\$ 531,702</u>	<u>\$ 8,866,158</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**Net change in fund balances - total governmental funds** \$ (12,560,959)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	15,030,538	
Current year depreciation	(391,594)	
Total		14,638,944

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (32,143)

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

Taxes	149,250	
Intergovernmental revenue	(1,195,110)	
Accrued interest	180,081	
Total		(865,779)

Lease-purchase agreements are recorded as revenue in the governmental funds, however, they increase long-term liabilities on the statement of net assets. (596,482)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 334,515

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as expense when consumed. (5,745)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (26,979)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 32,867

**Change in net assets of governmental activities** \$ 918,239

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,714,121	\$ 2,991,789	\$ 3,081,762	\$ 89,973
Tuition. . . . .	561,551	619,000	676,091	57,091
Earnings on investments. . . . .	31,298	34,500	47,143	12,643
Classroom materials and fees . . . . .	11,793	13,000	12,842	(158)
Other local revenues. . . . .	185,482	227,250	205,916	(21,334)
Intergovernmental - State. . . . .	6,886,339	7,590,846	7,188,928	(401,918)
Intergovernmental - Federal . . . . .	9,072	10,000	27,714	17,714
Total revenue . . . . .	<u>10,399,656</u>	<u>11,486,385</u>	<u>11,240,396</u>	<u>(245,989)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,881,205	6,003,219	5,757,230	245,989
Special. . . . .	1,278,814	1,277,513	1,163,412	114,101
Vocational. . . . .	91,928	91,987	84,623	7,364
Other . . . . .	273,000	335,000	334,064	936
Support Services:				
Pupil. . . . .	441,390	442,691	423,757	18,934
Instructional staff . . . . .	163,353	163,503	153,333	10,170
Board of education . . . . .	48,076	51,282	49,902	1,380
Administration. . . . .	1,090,562	1,095,274	1,045,358	49,916
Fiscal . . . . .	288,236	293,250	274,779	18,471
Business . . . . .	-	100	52	48
Operations and maintenance. . . . .	1,088,044	1,120,423	1,030,849	89,574
Pupil transportation . . . . .	589,375	599,127	579,084	20,043
Central. . . . .	421,283	219,283	188,326	30,957
Operation of non-instructional services . . . . .	2,891	3,477	2,814	663
Extracurricular activities. . . . .	213,631	217,058	211,241	5,817
Facilities acquisition and construction . . . . .	142,766	740,136	688,055	52,081
Debt service:				
Principal retirement . . . . .	-	26,000	26,000	-
Interest and fiscal charges . . . . .	-	111,360	108,130	3,230
Total expenditures . . . . .	<u>12,014,554</u>	<u>12,790,683</u>	<u>12,121,009</u>	<u>669,674</u>
Excess of revenues under expenditures. . . . .	<u>(1,614,898)</u>	<u>(1,304,298)</u>	<u>(880,613)</u>	<u>423,685</u>
<b>Other financing sources (uses):</b>				
Lease-purchase agreement . . . . .	734,729	734,729	596,482	(138,247)
Refund of prior year expenditure . . . . .	35,000	35,000	125,528	90,528
Transfers (out) . . . . .	(30,000)	-	-	-
Advances in. . . . .	72,800	72,800	72,800	-
Advances (out) . . . . .	(60,000)	(97,000)	(97,000)	-
Sale of capital assets. . . . .	15,000	15,000	8,030	(6,970)
Total other financing sources (uses) . . . . .	<u>767,529</u>	<u>760,529</u>	<u>705,840</u>	<u>(54,689)</u>
Net change in fund balance . . . . .	(847,369)	(543,769)	(174,773)	368,996
<b>Fund balance at beginning of year . . . . .</b>	<b>3,176,003</b>	<b>3,176,003</b>	<b>3,176,003</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>188,214</b>	<b>188,214</b>	<b>188,214</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 2,516,848</u></b>	<b><u>\$ 2,820,448</u></b>	<b><u>\$ 3,189,444</u></b>	<b><u>\$ 368,996</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and investments . . . . .	\$ 4,086	\$ 26,626
Accounts receivable. . . . .	-	227
	4,086	26,853
Total assets . . . . .	4,086	\$ 26,853
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 26,853
Total liabilities . . . . .	-	\$ 26,853
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	4,086	
Total net assets . . . . .	\$ 4,086	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions. . . . .	\$ 216
Total additions. . . . .	216
<b>Deductions:</b>	
Scholarships awarded . . . . .	717
Change in net assets . . . . .	(501)
<b>Net assets at beginning of year. . . . .</b>	<b>4,587</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 4,086</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The LaBrae Local School District (the "District") is located in Trumbull County and encompasses all or part of surrounding townships.

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to its residents of the District.

The District is the 361<sup>st</sup> largest by enrollment among the 614 public school districts in the state. It currently operates three elementary schools and one comprehensive middle/high school. The District is staffed by 51 non-certified and 108 certificated personnel to provide services to approximately 1,551 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*JOINTLY GOVERNED ORGANIZATIONS*

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among 30 school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based upon a per pupil charge. The District contributed \$23,265 to NEOMIN for fiscal year 2005.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers, one from each county. The District was not represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 Park Avenue, Warren, Ohio, 44481.

North East Ohio Special Education Regional Resource Center (NEOSERRC)

NEOSERRC provides special education services at a regional level, as determined by each of the participating local schools.

The District is a member of NEOSERRC and has a representative on the governing board. The District has no ongoing financial interest of financial responsibility to NEOSERRC.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member school districts. Each member pays a monthly premium based on use of the media materials.

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

Trumbull Career and Technical Center

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*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.

**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.

*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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those accounted for in the classroom facilities fund; (b) for food service and uniform school supplies services; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**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 object level within each function within each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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 Trumbull 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 in the budgetary statements reflect the amounts in the original and 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, 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. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 appropriations that 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 Investments" on the basic financial statements.

During fiscal year 2005 investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and U.S. government money market mutual funds. 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.

Under existing Ohio statutes all investment earnings 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 2005 amounted to \$17,145.

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

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

**G. Inventory**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets 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 \$500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Other improvements	15 - 30 years
Buildings	15 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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 sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 15 years of service regardless of their age and all employees 60 years or older with seven or more years of service were considered expected to become eligible in accordance with GASB Statement No. 16.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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.

**K. 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 governmental funds balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**L. 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.

**M. 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, prepayments, debt service, property taxes unavailable for appropriation, materials and supplies, and budget stabilization. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**N. 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.

**O. Estimates**

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount reserved for budget stabilization. See Note 16 for details.

**Q. Interfund Activity**

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

**R. 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 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 2,220,211	\$ 184,242	\$17,749,409	\$ 1,360,762	\$ 21,514,624
GASB Technical Bulletin No. 2004-2	<u>(64,715)</u>	<u>-</u>	<u>-</u>	<u>(17,047)</u>	<u>(81,762)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 2,155,496</u>	<u>\$ 184,242</u>	<u>\$17,749,409</u>	<u>\$ 1,343,715</u>	<u>\$ 21,432,862</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Summer Intervention	\$ 1,023
Title VI-B	4,617
Title II - A	22,848

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 result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (State Treasury Asset Reserve of Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**A. Deposits with Financial Institutions**

At June 20, 2005, the carrying amount of all District deposits was \$3,345,415, exclusive of the \$1,270,693 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$3,171,491 of the District's bank balance of \$3,371,491 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

**B. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
Repurchase Agreement	\$ 1,270,693	\$ 1,270,693	\$ -	\$ -	\$ -
FHLB	5,611,050	-	-	-	5,611,050
U.S. Government money market mutual fund	19,382	19,382	-	-	-
	<u>\$ 6,901,125</u>	<u>\$ 1,290,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,611,050</u>

The weighted average maturity of investments is 2.28 years.

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

*Credit Risk:* The District's investments, except for the repurchase agreement as discussed above, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**LABRAE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 1,270,693	81.31%
FHLB	5,611,050	18.41%
U.S. Government money market mutual fund	<u>19,382</u>	<u>0.28%</u>
	<u>\$ 6,901,125</u>	<u>100.00%</u>

**C. Cash with Escrow Agent**

At fiscal year-end, \$496,601 was on deposit in the District's escrow account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as "Cash with Escrow Agent".

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,345,415
Investments	<u>6,901,125</u>
Total	<u>\$ 10,246,540</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 10,215,828
Private-purpose trust funds	4,086
Agency funds	<u>26,626</u>
Total	<u>\$ 10,246,540</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 97,000



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 5 - INTERFUND TRANSACTIONS**

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

These interfund loans between governmental funds will be eliminated on the government-wide statements. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

**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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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 Trumbull County. The County Auditor periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

The amount available as an advance at June 30, 2005 was \$21,341 in the general fund, \$4,510 in the debt service fund, and \$2,132 in the nonmajor governmental funds. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$30,160 in the general fund and \$9,241 in the nonmajor governmental funds.

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 2005 taxes were collected are:

	<u>2004 Second Half Collections</u>		<u>2005 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 94,144,650	81.51	\$ 95,476,200	81.89
Public utility personal	10,829,670	9.38	9,826,620	8.43
General personal property	<u>10,527,088</u>	<u>9.11</u>	<u>11,311,142</u>	<u>9.68</u>
Total	<u>\$ 115,501,408</u>	<u>100.00</u>	<u>\$ 116,613,962</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 47.30		\$ 47.30	
Permanent improvements	3.90		3.90	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants. 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	\$ 5,406,023
Accounts	5,851
Intergovernmental	326,755
Accrued interest	<u>192,491</u>
Total	<u>\$ 5,931,120</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at</u> <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>06/30/04</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 266,417	\$ -	\$ -	\$ 266,417
Construction-in-progress	<u>10,254,508</u>	<u>14,981,480</u>	<u>-</u>	<u>25,235,988</u>
Total capital assets, not being depreciated	<u>10,520,925</u>	<u>14,981,480</u>	<u>-</u>	<u>25,502,405</u>
<i>Capital assets, being depreciated:</i>				
Other improvements	280,956	-	-	280,956
Buildings	5,749,578	-	-	5,749,578
Furniture and equipment	4,131,124	49,058	(122,060)	4,058,122
Vehicles	<u>1,162,783</u>	<u>-</u>	<u>(45,494)</u>	<u>1,117,289</u>
Total capital assets, being depreciated	<u>11,324,441</u>	<u>49,058</u>	<u>(167,554)</u>	<u>11,205,945</u>
<i>Less: accumulated depreciation:</i>				
Other improvements	(268,121)	(783)	-	(268,904)
Buildings	(4,157,650)	(82,225)	-	(4,239,875)
Furniture and equipment	(2,749,879)	(207,761)	99,016	(2,858,624)
Vehicles	<u>(514,541)</u>	<u>(100,825)</u>	<u>36,395</u>	<u>(578,971)</u>
Total accumulated depreciation	<u>(7,690,191)</u>	<u>(391,594)</u>	<u>135,411</u>	<u>(7,946,374)</u>
Governmental activities capital assets, net	<u>\$ 14,155,175</u>	<u>\$ 14,638,944</u>	<u>\$ (32,143)</u>	<u>\$ 28,761,976</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 140,212
Special	20,228
Vocational	3,864

Support Services:

Pupil	16,166
Instructional staff	50,424
Administration	15,249
Fiscal	3,340
Operations and maintenance	12,181
Pupil transportation	102,498
Central	519
Extracurricular activities	19,043
Food service operations	<u>7,870</u>
Total depreciation expense	<u>\$ 391,594</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
<u>General Obligation Bonds:</u>					
Series 2002, Improvement					
Current interest bonds					
2.0% - 5.0%, 12/01/24 maturity	\$ 8,050,000	\$ -	\$ (290,000)	\$ 7,760,000	\$ 300,000
Series 2002, Improvement					
Capital appreciation bonds					
10.548% (average effective)					
06/01/15 and 06/01/16 maturity	213,994	-	-	213,994	-
Series 2002, Improvement					
Capital appreciation bonds					
Accreted interest	47,521	27,583	-	75,104	-
<hr/>					
Total general obligation bonds payable	<u>8,311,515</u>	<u>27,583</u>	<u>(290,000)</u>	<u>8,049,098</u>	<u>300,000</u>
<u>Other Long-Term Obligations:</u>					
OASBO Lease-Purchase Agreement	-	596,482	(26,000)	570,482	34,000
Asbestos Loan	27,773	-	(18,515)	9,258	9,258
Compensated absences	988,090	67,528	(73,044)	982,574	94,006
<hr/>					
Total other long-term obligations	<u>1,015,863</u>	<u>664,010</u>	<u>(117,559)</u>	<u>1,562,314</u>	<u>137,264</u>
<hr/>					
Total governmental activities	<u>\$ 9,327,378</u>	<u>\$ 691,593</u>	<u>\$ (407,559)</u>	<u>\$ 9,611,412</u>	<u>\$ 437,264</u>

Asbestos Loan: The District received an interest free loan for asbestos assistance with the United States Environmental Protection Agency. Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a loan of \$333,276 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$9,258 every six months, with the first payment made in June 1988 and the final amount due December 2005.

OASBO Lease Purchase Agreement - During fiscal 2005, the District entered into a lease-purchase agreement with the Ohio Association of School Business Officials' (OASBO) Expanded Asset Pooled Financing Program to finance the cost of new athletic and bus facilities. The annual payments will be payable from the general fund. At June 30, 2005, the District had outstanding borrowings of \$570,482. The permissible borrowings under the lease-purchase agreement are \$2,044,000. As of June 30, 2005, the future minimum lease payments for the lease-purchase agreement are not available, because the monies related to the projects are still being disbursed.

Capital assets consisting of construction in progress have been recorded in the amount of \$596,482. A corresponding liability is recorded in the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

*General Obligation Bonds:* During fiscal year 2002, the District issued general obligation bonds to provide funds for the construction of one new combination building to house grades 3 thru 12; abandon allowance for demolishing and abating Leavitt and Vaughan elementaries and LaBrae High schools (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net asseets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund (a nonmajor governmental fund). The source of payment is derived from a current 5.4 mill bonded debt tax levy for the construction project.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2005, the total estimated cost of the Construction Project is \$28,739,711, of which OSFC will pay \$19,830,711.

In conjunction with the 5.4 mills which support the bond issue, the District also passed in fiscal 2002 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the facilities maintenance special revenue fund (a nonmajor governmental fund).

This issue is comprised of both current interest bonds, par value \$8,695,000, and capital appreciation bonds, par value \$870,000. The interest rates on the current interest bonds range from 2.00% to 5.00%. The capital appreciation bonds mature on December 1, 2015 and December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The effective interest rate on the capital appreciation bonds is 10.548%. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$289,098. A total of \$75,104 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005. The current interest bonds maturing on or after December 1, 2013 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
On or after December 1, 2013	100% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

**LABRAE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

<u>Year Ended</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 300,000	\$ 341,078	\$ 641,078	\$ -	\$ -	\$ -
2007	310,000	331,922	641,922	-	-	-
2008	320,000	321,677	641,677	-	-	-
2009	330,000	310,215	640,215	-	-	-
2010	340,000	297,648	637,648	-	-	-
2011 - 2015	1,925,000	1,260,098	3,185,098	-	-	-
2016 - 2020	1,370,000	946,607	2,316,607	870,000	-	870,000
2021 - 2025	2,865,000	381,625	3,246,625	-	-	-
Total	<u>\$ 7,760,000</u>	<u>\$ 4,190,870</u>	<u>\$ 11,950,870</u>	<u>\$ 870,000</u>	<u>\$ -</u>	<u>\$ 870,000</u>

**B. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$2,655,678 (including available funds of \$212,219) and an unvoted debt margin of \$116,584.

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. The District accounts for compensated absence liability in accordance with GASB 16. The District has determined the vesting method of calculation to be the most appropriate method to compute the estimate.

Vacation Leave - Unused vacation, to a maximum of 5 days, shall be paid to any 12 month classified employee with the first pay in July with the exception of the Superintendent, Administrative Assistant and Treasurer. The District has determined that available vacation leave is subject to accrual based upon the vacation leave balances at June 30.

The Superintendent, Treasurer and Administrative Assistant shall be paid a salary based on 224 working days. If it becomes necessary for the Superintendent and Treasurer to work more than 224 days, they will be compensated based at a per diem rate for each additional day worked, not to exceed 15 days. However, they will not be additionally compensated for unused vacation pay. The Administrative Assistant is not eligible to be compensated for additional days worked.

Only administrative and support personnel who are under a full year contract (260 days) are eligible for vacation time.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - COMPENSATED ABSENCES - (Continued)**

Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Classified, 12-month employees can be paid for one week of vacation if unused at June 30.

The classified personnel accumulate vacation based on the following schedule:

<u>Years of Service</u>	<u>Vacation Days</u>
1 - 7	10
8 - 14	15
15 - 21	20
22 - beyond	25

Sick Leave - Each employee earns sick leave at a rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation is 450 days for classified employees and 465 days for certified employees.

Severance Pay - Based upon District negotiated agreements an employee upon retirement from active service is eligible to receive a portion of their sick leave. Based upon past historical trends, it has been determined that an employee with 15 or more years of vested service will be eligible for severance pay (any age) or employee over 60 with seven or more years of service (STRS/SERS vested). An analysis of all employees has been made to determine those with 15 or more years of service or 60 or older. Severance pay shall be a one-time lump sum payment under either of the following provisions: (1) the employee retires from the school system. To receive additional benefits as calculated below, the employee must have been employed by the District for 7 or more years; or (2) the employee resigns with 15 or more years of service to the District. Severance for both certified and classified employees is as follows: 25% of accumulated days, up to a maximum of 100 days.

**NOTE 11 - RISK MANAGEMENT**

**A. General Risk**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. In addition, the District maintains a \$1,000,000 umbrella liability policy.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$42,064,449.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of this grouping and representation with other participants in the GRP. The workers' compensation experience for the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for GRP rather than its individual rate. Total savings are then calculated and each participants individual performance is compared to the overall savings percentage of the GRP. A participant will 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 than can meet the GRP's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the GRP.

**C. Shared Risk Pool**

Trumbull County Insurance Consortium - The District participates in the Trumbull County Insurance Consortium. This is a shared risk pool comprised of 16 Trumbull County school districts. The Consortium is governed by an assembly which consists on one representative from each participating school district (usually the Superintendent or designee). The assembly elects officers for one-year terms to service as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3746, or by calling (614) 222-5853.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$157,187, \$140,437 and \$135,788, respectively; 45.30% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$85,980, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 2005 and 2004, 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 the fiscal years ended June 30, 2005, 2004, and 2003 were \$766,802, \$726,249, and \$705,743, respectively; 82.43% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$134,756 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$8,749 made by the District and \$9,064 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$54,772 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), 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.

**LABRAE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$57,489 during the 2005 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget 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);
- (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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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**

	General Fund
Budget basis	\$ (174,773)
Net adjustment for revenue accruals	(190,269)
Net adjustment for expenditure accruals	248,480
Net adjustment for other sources/(uses)	(101,328)
Adjustments for encumbrances	109,389
GAAP basis	\$ (108,501)

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is a defendant in a legal proceeding pertaining to matters which are incidental to performing routine governmental and other functions. Based on the status of this legal proceeding, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 16 - STATUTORY RESERVES**

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

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (4,007)	\$ -	\$ 46,436
Current year set-aside requirement	209,325	209,325	-
Qualifying disbursements	<u>(241,353)</u>	<u>(640,064)</u>	<u>-</u>
Total	<u>\$ (36,035)</u>	<u>\$ (430,739)</u>	<u>\$ 46,436</u>
Balance carried forward to FY 2006	<u>\$ (36,035)</u>	<u>\$ -</u>	<u>\$ 46,436</u>
Total restricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,436</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carrier forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	\$ 46,436
Total restricted assets	<u>\$ 46,436</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 17 - CONTRACTUAL COMMITMENTS**

- A.** As a result of the Ohio School Facilities Project that was in progress at June 30, 2005, the District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
Kirila Contractors, Inc	\$ 1,889,729	\$ 1,805,021	\$ 84,708
Enertech, Inc	28,674	27,614	1,060
Pollivka Surface Engineering	177,340	162,233	15,107
Roth Brothers, Inc	2,879,983	2,734,042	145,941
Enertech Electrical, Inc.	2,187,901	2,020,653	167,248
Steingass Mechanical Contracting, Inc	969,811	927,895	41,916
Fire Foe Corporation	294,941	252,430	42,511
Mike Cotes Construction Company	13,286,064	12,457,770	828,294
Continental Office Environments	383,310	-	383,310
Martin Public Seating	533,806	-	533,806
VEC	<u>1,101,333</u>	<u>266,655</u>	<u>834,678</u>
Totals	<u>\$ 23,732,892</u>	<u>\$ 20,654,313</u>	<u>\$ 3,078,579</u>

- B.** As a result of the OASBO Lease-Purchase Agreement that was in progress at June 30, 2005, the District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
VASCO Sports Contractors	\$ 351,937	\$ 6,830	\$ 345,107
Kreidler Construction Company	597,125	47,243	549,882
Esterlee Fence Co., Inc.	74,861	-	74,861
Sturdisteel Company	400,000	-	400,000
Komar Plumbing Co., Inc.	140,973	2,196	138,777
Schuler Heating and Cooling	72,175	2,392	69,783
Valley Electrical Consolidated, Inc.	316,720	95,720	221,000
VASCO Asphal Paving	<u>600,202</u>	<u>395,113</u>	<u>205,089</u>
Totals	<u>\$ 2,553,993</u>	<u>\$ 549,494</u>	<u>\$ 2,004,499</u>

**LABRAE LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550		\$52,973		\$52,973
National School Breakfast Program		10.553	\$71,203		\$71,203	
National School Lunch Program		10.555	168,302		168,302	
Total U.S. Department of Agriculture -- Nutrition Cluster			239,505	52,973	239,505	52,973
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 04	84.010	44,000		121,480	
	C1-S1 05		317,185		297,047	
Subtotal - Title 1 School Subsidy			361,185		418,527	
<i>Special Education Grants Cluster:</i>						
Title VI - B Special Education Grants to States	6B-SF-2004	84.027	28,800		61,020	
	6B-SF-2005		254,741		250,649	
Subtotal - Special Education Grants Cluster			283,541		311,669	
Safe and Drug Free Schools Grant	DR-S1-2005	84.186	10,877		10,877	
Innovative Education Program Strategies Chapter 2 Subsidy	CS-S1 2005	84.298	6,707		6,707	
Title II-D, Technology	TJS1-2004	84.318			2,513	
	TJS1-2005		9,576		6,791	
Subtotal - Title II-D Technology			9,576		9,304	
Title II-A, Improving Teacher Quality	TRS1-2004	84.367			5,846	
	TRS1-2005		101,233		104,325	
Subtotal - Title II-A Improving Teacher Quality			101,233		110,171	
Total -- U.S. Department of Education			773,119		867,255	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Human Services: Passed Through Ohio Department of Mental Retardation and Development Disabilities</i>						
<i>Medicaid Cluster:</i>						
Medical Assistance Program - TitleXIX - Community Alternative Funding System (CAFS)		93.778	7,247		7,247	
<b>Totals</b>			<b>\$ 1,019,871</b>	<b>\$ 52,973</b>	<b>\$ 1,114,007</b>	<b>\$ 52,973</b>

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

**LABRAE LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures 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.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.





**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***

LaBrae Local School District  
Trumbull County  
1001 North Leavitt Road  
Leavittsburg, Ohio 44483

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 LaBrae Local School District, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 15, 2006. 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 opinions 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

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

We intend this report solely for the information and use of the audit committee, management, 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

May 15, 2006



## **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**

Labrae Local School District  
Trumbull County  
1001 North Leavitt Road  
Leavittsburg, Ohio 44483

To the Board of Education:

#### **Compliance**

We have audited the compliance of LaBrae 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, 2005. 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 each 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, the LaBrae 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, 2005.

#### **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

May 15, 2006

**LABRAE LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA # 84.010 Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
<b>Finding Number</b>	2005-001

**MATERIAL NONCOMPLIANCE**

**Unlawful Interest in a Public Contract**

**Ohio Revised Code 2921.42** states, in part, that no public official shall knowingly authorize or employ the authority or influence of their office to secure authorization of any public contract in which they, a member of their family, or any of their business associates has an interest.

The Ohio Ethics Commission has issued advisory opinions indicating that **Revised Code 102.03(D)** and Revised Code 2921.42 prohibit a public official or employee from participating, formally or informally, in any matter which directly affects the private pecuniary interests of himself/herself or any other party, if the relationship between the employee and the other party is such that the employee's objectivity and independence of judgment could be impaired. Specifically, the Commission has stated that Revised Code 102.03(D) and Revised Code 2921.42 prohibit a public employee from using his or her authority or influence, formally or informally, to secure anything of value for members of the employee's family, including his or her spouse or children. Examples of such advisory opinions include, but are not limited to: Adv. Ops. Nos. 80-001, 87-004, 88-004, 88-008, 90-010, 90-012, and 97-004.

The operation of the District's instrumental program was directed by a band director and an assistant band director. During fiscal year 2005, the District employed the services of two music companies to repair musical instruments; J&R Instrument Repair and Advance Music Co. The owner of J&R Instrument Repair, Mr. Richard Steigerwald, is the father of the District's Assistant Band Director, Mr. Ted Steigerwald. The amounts paid to J&R Instrument Repair and Advance Music Co. during fiscal year 2005 were \$1,695.00 and \$1,047.05 respectively.

This matter will be referred to the Ohio Ethics Commission for further review.

**Officials' Response**

Mr. Ted Steigerwald is considered our elementary and middle school instrumental music teacher. In addition to his teaching duties, Mr. Steigerwald has three supplemental contracts with the LaBrae Board of Education:

- Assistant Varsity Band Director
- 7/8 Grade Band Director, and
- Elementary Band Director.

Mr. Steigerwald's duties do not include accounting for all monies collected and expended in the operation of the instrumental program; these are the duties of our Varsity Band Director, Mr. Bernard Edenfield. The duties assigned our Band Director are listed in the Board of Education Job Description Book under supplemental positions. Mr. Edenfield is responsible for signing all invoices for the band department and did, in fact, sign all the invoices with J&R Instrument Repair.

<b>Finding Number</b>	2005-002
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**MATERIAL NONCOMPLIANCE**

**Unlawful Interest in a Public Contract**

**Ohio Revised Code 2921.42** states, in part, that no public official shall knowingly authorize or employ the authority or influence of their office to secure authorization of any public contract in which they, a member of their family, or any of their business associates have an interest.

The Ohio Ethics Commission has issued advisory opinions indicating that **Revised Code 102.03(D)** and Revised Code 2921.42 prohibit a public official or employee from participating, formally or informally, in any matter which directly affects the private pecuniary interests of himself/herself or any other party, if the relationship between the employee and the other party is such that the employee's objectivity and independence of judgment could be impaired. Specifically, the Commission has stated that Revised Code 102.03(D) and Revised Code 2921.42 prohibit a public employee from using his or her authority or influence, formally or informally, to secure anything of value for members of the employee's family, including his or her spouse or children. Examples of such advisory opinions include, but are not limited to: Adv. Ops. Nos. 80-001, 87-004, 88-004, 88-008, 90-010, 90-012, and 97-004.

The District's Board President, Larry Sanderson, voted with other Board members, to approve the collective bargaining agreement, including the salary schedule, between the Labrae Local Board of Education and the Ohio Association of Public School Employees (OAPSE) and Local 278 for the period from July 1, 2004 to June 30, 2007. The agreement was signed on behalf of the LaBrae Local Board of Education by the Board President, Superintendent, and Assistant Superintendent. The Board President's wife, Mary Sanderson, and daughter, Nicolette Brewster, were employed as High School secretaries and were members of OAPSE Local 278.

Article 7 Nos. 3, 4, 5, and 6 of the Master Agreement provides for a health plan including hospitalization insurance, prescription drug coverage, dental insurance, and vision insurance respectively. District payroll records indicated that Larry Sanderson was granted coverage under this health plan as the spouse of Mary Sanderson.

This matter will be referred to the Ohio Ethics Commission for further review.

**Officials' Response**

We disagree with some of the information in paragraph number three (3). The collective bargaining agreement with OAPSE Local 278 was tentatively signed by the Board of Education President, Superintendent, and Assistant Superintendent. The final agreement was signed on behalf of the LaBrae Board of Education by the Board President and the Board Vice-President on September 8, 2004, immediately following the LaBrae Board of Education regular meeting. The pay raises and insurance benefits were the same as provided to our teachers' union, wherein Mr. Sanderson doesn't have a relative. Also, the OAPSE contract was a unanimous vote of approval by the LaBrae Board of Education, which made Mr. Sanderson's vote a non-issue that the motion carried to approve the OAPSE contract.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	None
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**Auditor of State  
Betty Montgomery**

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800-282-0370  
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**LABRAE LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 29, 2006**