



**Auditor of State
Betty Montgomery**

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Manchester Local School District
Summit County
6075 Manchester Road
Akron, Ohio 44319

To the Board of Education:

We have audited the accompanying financial statements of the Manchester Local School District, Summit County, Ohio, (the District) as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the District prepares its financial statements and notes on accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Manchester Local School District, Summit County, Ohio, as of June 30, 2004 and 2003, and the combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As described in Note 16 to the financial statements, the District has experienced a decrease in funding from various sources. To alleviate negative fund balances at June 30, 2004, the District issued \$125,000 in tax anticipation notes on June 28, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

October 1, 2004

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Taxes	\$4,156,788	\$248,440		\$90,179		\$4,495,407
Intergovernmental	5,623,460	420,781		11,551		6,055,792
Food Service		1,037				1,037
Earnings on Investments	6,223				\$432	6,655
Extracurricular Activities		147,059				147,059
Classroom Material and Fees	11,620	21,874				33,494
Contributions & Donations					3,501	3,501
Miscellaneous	71,955	45,634				117,589
Total Cash Receipts	9,870,046	884,825	\$0	101,730	3,933	10,860,534
Cash Disbursements:						
Instruction:						
Regular	4,753,615	70,341		19,680	50	4,843,686
Special	529,323	231,544				760,867
Vocational Education	81,878					81,878
Adult/ Continuing	12,936				6,908	19,844
Support Services:						
Pupils	799,243	6,307				805,550
Instructional Staff	413,805	20,038				433,843
Board of Education	19,113	1,300				20,413
Administration	868,542	1,029		18		869,589
Fiscal	481,329	3,703		1,374		486,406
Operations and Maintenance	901,942	225,829		1,129		1,128,900
Pupil Transportation	592,305	51,928				644,233
Central	48,888					48,888
Extracurricular Activities:						
Academic and Subject Oriented	57,096	59,233				116,329
Sports Oriented	249,145	133,348				382,493
Co-Curricular Activities	13,140	588				13,728
Facilities Acquisition and Construction Services:						
Site Improvement		79,518				79,518
Building Improvement	61,045			217,858		278,903
Other Facilities Acquisition & Construction	22,870					22,870
Debt Service						
Repayment of Debt			519,376			519,376
Total Cash Disbursements	9,906,215	884,706	519,376	240,059	6,958	11,557,314
Total Cash Receipts Over/(Under) Cash Disbursements	(36,169)	119	(519,376)	(138,329)	(3,025)	(696,780)
Other Financing Sources (Uses)						
Sale and Loss of Assets	14,203					14,203
Proceeds from Sale of Notes	425,000					425,000
Transfers-In		20,373	519,376			539,749
Advances-In	7,542	17,287		34,119		58,948
Refund of Prior Year Expenditures	37,501					37,501
Transfers-Out	(553,133)	(20,308)				(573,441)
Advances-Out	(34,119)	(24,829)				(58,948)
Total Other Financing Sources (Uses)	(103,006)	(7,477)	519,376	34,119	0	443,012
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and and Other Financing Uses	(139,175)	(7,358)	0	(104,210)	(3,025)	(253,768)
Fund Cash Balances, July 1, 2003	204,257	187,772	0	83,698	51,588	527,315
Fund Cash Balances, June 30, 2004	\$65,082	\$180,414	\$0	(\$20,512)	\$48,563	\$273,547
Reserves for Encumbrances	\$30,094	\$42,405	\$0	\$3,235	\$0	\$75,734

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Sales	\$234,912			\$234,912
Charges for Services		\$1,212,407		1,212,407
Extracurricular Activities			\$94,115	94,115
Classroom Materials and Fees	17,398			17,398
Total Operating Cash Receipts	<u>252,310</u>	<u>\$1,212,407</u>	<u>94,115</u>	<u>1,558,832</u>
Operating Cash Disbursements:				
Salaries and Wages	128,805			128,805
Fringe Benefits	37,499			37,499
Purchased Services	3,014			3,014
Supplies and Materials	181,561			181,561
Capital Outlay-Replacement	1,003			1,003
Claims		1,142,127		1,142,127
Other Objects	646	7,510	92,707	100,863
Total Operating Cash Disbursements	<u>352,528</u>	<u>1,149,637</u>	<u>92,707</u>	<u>1,594,872</u>
Operating (Loss)	<u>(100,218)</u>	<u>62,770</u>	<u>1,408</u>	<u>(36,040)</u>
Non-Operating Cash Receipts:				
Earnings on Investments	206	697	446	1,349
Intergovernmental	57,148			57,148
Miscellaneous	2,540		1,767	4,307
Total Non-Operating Cash Receipts	<u>59,894</u>	<u>697</u>	<u>2,213</u>	<u>62,804</u>
Excess of Cash Receipts (Under) Cash Disbursements	(40,324)	63,467	3,621	26,764
Transfers-In	33,692			33,692
Advances-In	13,617			13,617
Advances-Out	(13,617)			(13,617)
Net Cash Receipts Over/(Under) Cash Disbursements	(6,632)	63,467	3,621	60,456
Fund Cash Balances, July 1, 2003	<u>8,721</u>	<u>13,202</u>	<u>53,334</u>	<u>75,257</u>
Fund Cash Balances, June 30, 2004	<u>\$2,089</u>	<u>\$76,669</u>	<u>\$56,955</u>	<u>\$135,713</u>
Reserves for Encumbrances	<u>\$0</u>	<u>\$0</u>	<u>\$1,625</u>	<u>\$1,625</u>

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:						
Taxes	\$4,047,222	\$254,823		\$88,919		\$4,390,964
Intergovernmental	5,461,021	301,962		33,290		5,796,273
Food Service		3,737				3,737
Earnings on Investments	8,358				\$589	8,947
Extracurricular Activities		130,222				130,222
Classroom Material and Fees	9,986	19,862				29,848
Contributions & Donations					6,081	6,081
Miscellaneous	120,978	46,021				166,999
Total Cash Receipts	9,647,565	756,627	\$0	122,209	6,670	10,533,071
Cash Disbursements:						
Instruction:						
Regular	4,434,466	65,832		22,358		4,522,656
Special	423,127	213,202				636,329
Vocational Education	70,974					70,974
Adult/ Continuing	13,570				3,174	16,744
Support Services:						
Pupils	741,014	10,515				751,529
Instructional Staff	420,546	2,000				422,546
Board of Education	71,140					71,140
Administration	777,222	1,019		12		778,253
Fiscal	584,120	3,709		1,332		589,161
Operations and Maintenance	865,424	229,669				1,095,093
Pupil Transportation	587,760	40,693				628,453
Central	68,598	14,870				83,468
Extracurricular Activities:						
Academic and Subject Oriented	50,482	59,618				110,100
Sports Oriented	204,673	127,026				331,699
Co-Curricular Activities	11,205	185				11,390
Facilities Acquisition and Construction Services:						
Building Improvement	6,656			165,484		172,140
Other Facilities Acquisition & Construction	43,213					43,213
Debt Service						
Repayment of Debt			376,010			376,010
Total Cash Disbursements	9,374,190	768,338	376,010	189,186	3,174	10,710,898
Total Cash Receipts Over/(Under) Cash Disbursements	273,375	(11,711)	(376,010)	(66,977)	3,496	(177,827)
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	150,000					150,000
Transfers-In		36,474	376,010			412,484
Refund of Prior Year Expenditures	55,440					55,440
Transfers-Out	(414,806)	(24,890)				(439,696)
Total Other Financing Sources (Uses)	(209,366)	11,584	376,010	0	0	178,228
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and and Other Financing Uses	64,009	(127)	0	(66,977)	3,496	401
Fund Cash Balances, July 1, 2002	140,248	187,899	0	150,675	48,092	526,914
Fund Cash Balances, June 30, 2003	\$204,257	\$187,772	\$0	\$83,698	\$51,588	\$527,315
Reserves for Encumbrances	\$23,969	\$32,911	\$0	\$31,482	\$0	\$88,362

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Sales	\$232,202			\$232,202
Charges for Services		\$1,248,140		1,248,140
Extracurricular Activities			\$107,540	107,540
Classroom Materials and Fees	18,457			18,457
Total Operating Cash Receipts	<u>250,659</u>	<u>\$1,248,140</u>	<u>107,540</u>	<u>1,606,339</u>
Operating Cash Disbursements:				
Salaries and Wages	120,192			120,192
Fringe Benefits	31,983			31,983
Purchased Services	1,325			1,325
Supplies and Materials	192,428			192,428
Capital Outlay-Replacement	19,867			19,867
Claims		1,302,982		1,302,982
Other	614	9,882	102,891	113,387
Total Operating Cash Disbursements	<u>366,409</u>	<u>1,312,864</u>	<u>102,891</u>	<u>1,782,164</u>
Operating Income/(Loss)	<u>(115,750)</u>	<u>(64,724)</u>	<u>4,649</u>	<u>(175,825)</u>
Non-Operating Cash Receipts:				
Earnings on Investments	391	1,058	415	1,864
Intergovernmental	44,685			44,685
Miscellaneous	1,868		256	2,124
Total Non-Operating Cash Receipts	<u>46,944</u>	<u>1,058</u>	<u>671</u>	<u>48,673</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	(68,806)	(63,666)	5,320	(127,152)
Transfers-In	27,212		6,650	33,862
Transfers-Out			(6,650)	(6,650)
Net Cash Receipts Over/(Under) Cash Disbursements	(41,594)	(63,666)	5,320	(99,940)
Fund Cash Balances, July 1, 2002	50,315	76,868	48,014	175,197
Fund Cash Balances, June 30, 2003	<u><u>\$8,721</u></u>	<u><u>\$13,202</u></u>	<u><u>\$53,334</u></u>	<u><u>\$75,257</u></u>
Reserves for Encumbrances	<u><u>\$2,011</u></u>	<u><u>\$0</u></u>	<u><u>\$110</u></u>	<u><u>\$2,121</u></u>

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Manchester Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education, and is responsible for providing public education to residents of the District.

Average daily membership during 2004 and 2003, was 1,468 and 1,485, respectively. The District employed 100 and 103 certificated employees and 85 and 80 non-certificated employees, respectively, during those respective fiscal years.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all fund, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes for the organization. The District has no component units.

The Village of Franklin (Village), Franklin Township (Township) and Parent Teacher Association (PTA) perform activities within the District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

The District is associated with three jointly governed organizations and one insurance pool. These organizations are the Northeast Ohio Network for Educational Technology (NEONET), the Portage Lakes Career Center, Interval Opportunity School, and the Schools of Ohio Risk Sharing Authority. Information about these organizations is presented in Notes 12 and 13 to the financial statements.

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

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Cash and Investments

Investments in repurchase agreements are valued at cost. Investments in Money Markets are valued at share price, which is the price the investment could be sold for on June 30, 2004 and 2003.

D. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the specific recording of receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of fund are as follows:

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. The District had the following significant Special Revenue Funds:

Emergency Levy Fund – This fund is used to account for the proceeds of the emergency operating levy. Originally passed in 1977, the levy is renewed for a five-year term. Expenditures in this fund are not restricted to specific purposes.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Athletics Fund – This fund is used to account for the student activity participation in the activity, but do not have student management of the programs. This fund includes athletic programs as well as cheerleaders and similar types of activities.

3. Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. The District's only debt service fund is the Bond Retirement Fund which is used to accumulate resources for the payment of principal and interest on the District's notes.

4. Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The District had the following significant Capital Projects Funds:

Permanent Improvement Fund – This fund is used to account for all transactions related to the acquiring, construction or improving of permanent improvements.

5. Enterprise Funds

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

Lunchroom Fund – This fund is used to account for all revenues and expenses related to the provision of food services for the District's student and staff.

6. Internal Service Funds

This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District had the following significant Internal Service Funds:

Self-Insurance Fund – This fund is used to account for the cost of medical, dental and prescription benefits provided to the District's employees.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

7. Expendable Trust Funds

This fund is used to account for resources restricted by legally binding trust agreements. The District's only Expendable Trust Fund is the Special Trust Fund which is used to account for monies held by the District in a trustee capacity for individuals and/or private organizations which benefit the student body or the local community.

8. Agency Fund

This fund is used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and/or other funds.

Student Managed Activity Fund – This fund is used to account for those student activity programs which have student participation in the activity and have students involved in the management of the program.

E. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor (Fiscal Officer for Summit County), as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. Budgeted receipts as shown in Note 3 do not include July 1, 2004 and 2003, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

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

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. Contrary to Ohio Revised Code Section 5705.41(D), the District did not certify expenditures prior to incurring the obligation.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's basis of accounting.

H. Total Columns on Financial Statements

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

2. POOLED CASH 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 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.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

2. POOLED CASH AND INVESTMENTS (Continued)

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the 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 money deposited with the institution.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

2. POOLED CASH 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - At June 30, 2004, and 2003, the carrying amounts of the District's deposits were \$17,647 and \$57,242 respectively, and the bank balances were \$117,408 and \$173,956, respectively. As of June 30, 2004, \$102,754 of the bank balance was covered by federal depository insurance and \$14,654 was uncollateralized and uninsured. As of June 30, 2003, \$163,850 of the bank balance was covered by federal depository insurance and \$10,106 was uncollateralized and uninsured.

Investments

The District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The money market fund investments are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

2004	Category 3	Carrying Value
Repurchase Agreement	\$330,000	\$330,000
Money Market Fund		<u>61,613</u>
Total		<u>\$391,613</u>
2003		
Repurchase Agreement	\$545,000	\$545,000
Money Market Fund		<u>330</u>
Total		<u>\$545,330</u>

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,725,252	\$10,354,292	\$629,040
Special Revenue	984,846	922,485	(62,361)
Debt Service	218,824	519,376	300,552
Capital Projects	105,767	135,849	30,082
Enterprise	342,700	359,513	16,813
Internal Service	1,316,000	1,213,104	(102,896)
Fiduciary	113,000	100,261	(12,739)
Total	\$12,806,389	\$13,604,880	\$798,491

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,499,590	\$10,523,561	(\$23,971)
Special Revenue	939,337	972,248	(32,911)
Debt Service	519,376	519,376	0
Capital Projects	245,892	243,294	2,598
Enterprise	350,516	366,145	(15,629)
Internal Service	1,183,717	1,149,637	34,080
Fiduciary	101,179	101,290	(111)
Total	\$13,839,607	\$13,875,551	(\$35,944)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,457,058	\$9,853,005	\$395,947
Special Revenue	688,207	793,101	104,894
Debt Service	202,664	376,010	173,346
Capital Projects	113,537	122,209	8,672
Enterprise	317,500	324,815	7,315
Internal Service	885,400	1,249,198	363,798
Fiduciary	111,000	121,531	10,531
Total	\$11,775,366	\$12,839,869	\$1,064,503

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$9,788,995	\$9,812,965	(\$23,970)
Special Revenue	793,226	826,139	(32,913)
Debt Service	376,010	376,010	0
Capital Projects	189,187	220,668	(31,481)
Enterprise	366,409	368,420	(2,011)
Internal Service	1,312,864	1,312,864	0
Fiduciary	112,714	112,825	(111)
Total	<u>\$12,939,405</u>	<u>\$13,029,891</u>	<u>(\$90,486)</u>

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority during 2004 and 2003.

Contrary to Ohio Revised Code Section 5705.39, the District had appropriations exceed estimated resources plus unencumbered balances during 2004 and 2003.

Contrary to Ohio Revised Code Section 5705.10, the District had significant amount of negative fund balances during 2004 and 2003. In addition, at June 30, 2004 the District had a negative fund balance within the Capital Projects Fund after an audit adjustment of \$29,567 to the General Fund which was inadvertently posted to the Permanent Improvement Fund.

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for the tax year 2002.

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

The full tax rates applied to real property for the tax (calendar) years 2004 and 2003 were \$59.86 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$29.11 and \$29.11 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$34.50 and \$34.50 per \$1,000 of assessed valuation for all other real property.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

4. PROPERTY TAX (Continued)

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) years 2004 and 2003 was \$59.86 per \$1,000 of assessed valuation.

The Summit County Fiscal Officer collects property tax on behalf of all taxing districts within the county and periodically remits to the taxing districts their portions of the taxes collected.

5. INSURANCE

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

For 2004 and 2003, the District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

6. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit Plan (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 DB Plan and the DC 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 during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For fiscal year ended June 30, 2003 (the latest information available), plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,187,577, \$1,160,047, and \$1,072,870, respectively. Contributions to the DC and Combined Plans for fiscal year 2004 were \$11,977 made by the District and \$11,838 made by plan members. Contributions to the DC and Combined Plans for fiscal year 2003 were \$10,800 and \$9,636 made by plan members.

B. 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 and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614)222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$392,992, \$361,100, and \$418,763, respectively, equal to the required contributions for each year.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

7. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$49,482 for fiscal year 2004 and \$48,335 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$79,762.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

8. SELF INSURANCE

The District provides major medical, hospitalization, vision, prescription drug, dental, and life insurance benefits to its employees through a third party administrator.

The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self Insurance Fund cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2004</u>	<u>2003</u>
Cash and investments	\$61,613	\$ 330
Actuarial liabilities	\$129,000	\$129,815

9. CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004 or 2003.

10. 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 decision 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 on its financial operations.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

11. SET-ASIDE REQUIREMENTS

State of Ohio House Bill 412 requires the District to set-aside a portion of the general operating resources for future use. For the fiscal years ended June 30, 2004 and 2003 the required set-asides were:

	Textbook Reserve	Capital Maintenance Reserve
June 30, 2004		
Balances as of June 30, 2003	<u>(\$415,041)</u>	<u></u>
Current Year Set-aside Requirement	206,084	\$206,084
Current Year Offset		
Qualifying Disbursements	<u>(198,253)</u>	<u>(329,542)</u>
Total as of June 30, 2004	<u><u>(\$407,210)</u></u>	<u><u>(\$123,458)</u></u>
Balance carried forward to FY 2005	(\$407,210)	
June 30, 2003		
Balances as of June 30, 2002	<u>(\$380,820)</u>	<u></u>
Current Year Set-aside Requirement	195,912	\$195,912
Current Year Offsets		
Qualifying Disbursements	<u>(230,133)</u>	<u>(335,618)</u>
Total as of June 30, 2003	<u><u>(\$415,041)</u></u>	<u><u>(\$139,706)</u></u>
Balance carried forward to FY 2004	(\$415,041)	

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

12. JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Network for Educational Technology (NEONET)

NEONET is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Summit and Portage Counties. The primary function of NEONET is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by NEONET include student scheduling, registration, grade reporting and test scoring. Each member district pays an annual fee for the services provided by NEONET. NEONET is governed by a board of directors comprised of each Superintendent within the organization. The Summit County Educational Service Center serves as the fiscal agent of the organization and received funding from the State Department of Education. Each District has one vote in all matters and each member district's control over budgeting and financing of NEONET is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of NEONET is not dependent on the District's continued participation and no equity interest exists.

Portage Lakes Career Center

The Portage Lakes Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the Board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. The District's students may attend the vocational school. Each school district's control is limited to its representation on the Board.

Interval Opportunity School

The Interval Opportunity School (the School) is a jointly governed organization made up of six area public Districts. The function of the School is to provide "at risk students" with possibly a last and better opportunity to succeed in both their academic and social maturation. Each member district pays an annual fee based on the number of students serviced by the School. The School is governed by a board of directors comprised of each superintendent from Coventry Local, Portage Lakes Career Center and Green Local. The Coventry Local School District serves as the fiscal agent of the School. The continued existence of the School is not dependent on the District's continued participation and no equity interest exists.

13. INSURANCE POOL

Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

14. LONG-TERM DEBT

Debt outstanding at June 30, 2004 was as follows:

	2004 Principal	2003 Principal
Bus Note - 3.39%	\$0	\$23,881
Bus Note - 4.86%	76,473	93,404
Bus Note - 4.58%	27,474	35,833
Bus Note - 4.37%	33,054	48,546
Bus Note - 3.39%	0	33,695
Energy Conservation Chiller Note - 4.99%	125,048	137,526
Energy Conservation Note - 4.75%	0	26,340
Energy Conservation Note - 5.54%	401,064	439,974
Tax Anticipation Note - 3.17%	125,000	0
Total	\$788,113	\$839,199

Bond and note proceeds were used to finance the cost of building energy conservation improvements and to pay off the outstanding balances owed on several bus leases. All the Bus Notes and the Chiller Note were initiated during fiscal year ended 2002. The 5.54% Energy Conservation Note was refinanced during fiscal year ended 2002. The 4.75% Energy Conservation Note was initiated during fiscal year ended 2003.

The District also entered into a Tax Anticipation Note on June 28, 2004 at the rate of 3.17% to pay for operating expenses of the District. The note will mature on September 28, 2004.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30	Energy Conservation Improvement Note	Energy Conservation Chiller Note
2005	\$63,623	\$19,340
2006	63,623	19,340
2007	63,623	19,340
2008	63,623	19,340
2009	63,623	19,340
2010	63,623	19,340
2011	63,623	19,340
2012	63,626	19,340
Total Principal & Interest	508,987	154,720
Less amount representing interest	107,923	29,672
Total Principal	\$401,064	\$125,048

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

14. LONG-TERM DEBT (Continued)

The following is a schedule of future minimum lease payments of the notes and the present value of the net minimum note payments at June 30, 2004.

Year ending June 30:	4.86% Bus Note (2 buses)	4.58% Bus Note (1 bus)	4.37% Bus Note (2 buses)
2005	\$ 21,267	\$ 9,906	\$ 17,442
2006	21,267	9,906	17,437
2007	21,267	9,906	
2008	21,268		
Total minimum note payments	85,069	29,718	34,879
Less amount representing interest	8,596	2,244	1,825
Present value of future minimum note payments	<u>\$ 76,473</u>	<u>\$ 27,474</u>	<u>\$ 33,054</u>

15. SHORT TERM OBLIGATIONS

During 2004 and 2003, short-term notes were issued for \$300,000 and \$150,000, respectively, to fund current expenses of the District as follows:

	Balance <u>7/1/2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2004</u>
General Fund Tax Anticipation Note, 2.38%	\$ -	\$300,000	\$(300,000)	\$ -

	Balance <u>7/1/2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2003</u>
General Fund Tax Anticipation Note, 3.23%	\$ -	\$150,000	\$(150,000)	\$ -

16. FISCAL CONDITION

The District has experienced a decrease in funding from various sources. To alleviate negative fund balances at June 30, 2004, the District issued \$125,000 in tax anticipation notes on June 28, 2004. The issuance of this tax anticipation note was in violation of Ohio Revised Code Section 133.10. As of September 30, 2004, the ending book balances of the District was \$757,066.

District officials are aware of the declining cash flows and cash balances of the District and are planning procedures to counteract the District's declining revenues. No formal plan is in place as of October 1, 2004.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Manchester Local School District
Summit County
6075 Manchester Road
Akron, Ohio 44319

To the Board of Education:

We have audited the financial statements of the Manchester Local School District, Summit County, Ohio, (the District) as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 1, 2004, in which we noted the District reports on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We also noted the District has experienced a decrease in funding from various sources. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-005. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated October 1, 2004.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-006 through 2004-008.

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www.auditor.state.oh.us

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2004-007 and 2004-008 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated October 1, 2004.

This report is intended solely for the information and use of management and the Board of Education, and is not intended to be and should not be used by 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

October 1, 2004

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, for fiscal years 2004 and 2003, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Further, the District may receive a qualified audit opinion, up to and including an adverse opinion, as described in the AICPA's *Audit and Accounting Guide Audits of State and Local Governments (GASB 34 edition)* beginning in fiscal year ending June 30, 2005.

GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments" requires the District's basic financial statements and required supplementary information (RSI) consist of the following:

- Management's Discussion and Analysis - Providing management's analytical overview of the District's financial activities.
- Basic Financial Statements – The basic financial statements will consist of Government – wide financial statements, which will include a statement of net assets and a statement of activities, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, liabilities, revenues, expenses, and gains and losses of the District. The basic financial statements also will consist of the more familiar fund financial statements, but they will focus on the District's "Major" funds as defined in the Statement.
- Required Supplementary Information – Budgetary comparison schedules and certain "modified approach" infrastructure information.

The District should review the new standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments (GASB 34 edition)*. The District should also prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Finding Number	2004-002
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Ohio Rev. Code Section 5705.41(D) states in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

Finding Number	2004-002 (Continued)
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Ohio Rev. Code Section 5705.41(D) (Continued)

This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful.

During 2004 and 2003, 41 of 94 (44%) expenditures tested were not certified by the Treasurer prior to incurring the obligation, which included expenditures for self insurance and credit card payments, nor were the two exceptions above utilized for the items found to be in non-compliance with exception of two of the purchases. Although two purchase orders were stamped with the “Then and Now Certificate” language, the purchase required the Board’s approval since they exceeded the aforementioned threshold. These purchase orders were not approved by the Board by resolution as required by the above exceptions. As a result, the District could inadvertently over expend certain appropriations. The District should certify the availability of funds prior to incurring the obligation for expenditures or utilize the Then and Now Certificates according to the Ohio Revised Code.

Finding Number	2004-003
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

The District adjusted appropriations at fiscal year end 2004 and 2003, so that expenditures plus encumbrances did not exceed appropriations. However, we noted during April 2004 and May 2003, that expenditures plus encumbrances exceeded appropriations at the District’s legal level of control as follows:

April 2004 Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Emergency Levy	\$303,853	\$331,679	(\$27,826)
Entry Year	0	200	(200)
School Net	2,590	4,799	(2,209)
Drug Free Grant	6,261	6,562	(301)
Challenge Technology Grant	3,984	11,854	(7,870)
Bond Retirement	218,824	519,376	(300,552)
Permanent Improvement	163,009	222,688	(59,679)

Finding Number	2004-003 (Continued)
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Ohio Rev. Code Section 5705.41(B) (Continued)

May 2003 Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Emergency Levy	\$320,535	\$348,316	(\$27,781)
Bond Retirement	190,622	376,010	(185,388)
Permanent Improvement	100,000	166,112	(66,112)
Uniform School Supply	35,357	41,923	(6,566)
Self Insurance	768,000	955,926	(187,926)

This weakness could allow expenditures in these funds to exceed the total of available fund balances and current year revenues, which could then result in negative fund balance(s).

The District should frequently compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted and make any necessary amendments to appropriations and/or the certificate of estimated resources. The Treasurer should not approve expenditures which exceed appropriations.

Finding Number	2004-004
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Ohio Rev. Code Section 5705.39 provides that total appropriations from each fund shall not exceed total estimated fund resources from each fund. No appropriation measure shall become effective until the county fiscal officer files a certificate that the total appropriations for each fund does not exceed the total official estimate or amended official estimate.

The District did not obtain the required certificates from the County Fiscal Officer that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for each amended certificate. Although the certificate was not received as required, for purposes of budgetary financial reporting and budgetary compliance reporting the amendments were accepted. However, the final Amended Official Estimated Resources was not accepted for budgetary financial reporting and budgetary compliance reporting for fiscal year ended 2004 and 2003 since the Amended Official Estimated Resources were not sent to the County until August 2004 and August 2003 (after fiscal year end). As a result, at year ended 2004, the appropriations exceeded estimated resources plus unencumbered fund balances. In addition, throughout 2004 and 2003, appropriations exceeded estimated resources plus unencumbered fund balances as follows:

Finding Number	2004-004 (Continued)
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Ohio Rev. Code Section 5705.39 (Continued)

June 2004 Fund	Estimated Resources Plus Unencumbered Balance	Appropriations	Variance
General	\$9,875,973	\$10,499,590	(\$623,617)
Emergency Levy	302,282	305,699	(3,417)
Entry Year	0	1,100	(1,100)
School Net	2,590	5,115	(2,525)
Ohio Reads	0	14,170	(14,170)
Intervention Services	7	28,587	(28,580)
Extended Learning Grant	289	1,502	(1,213)
Challenge Tech. Grant	4,160	82,529	(78,369)
Bond Retirement	218,824	519,376	(300,552)
Permanent Improvement	162,049	226,211	(64,162)
Lunchroom Fund	310,000	312,320	(2,320)
Uniform School Supplies	33,230	34,246	(1,016)

February 2004 Fund	Estimated Resources Plus Unencumbered Balance	Appropriations	Variance
General	\$9,875,973	\$9,929,206	(\$53,233)
Emergency Levy	302,282	303,853	(1,571)
Ohio Reads	0	22,000	(22,000)
Intervention Services	7	6,332	(6,325)
Permanent Improvement	162,049	163,009	(960)

Finding Number	2004-004 (Continued)
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Ohio Rev. Code Section 5705.39 (Continued)

June 2003 Fund	Estimated Resources Plus Unencumbered Balance	Appropriations	Variance
General	\$9,537,562	\$9,788,995	(\$251,433)
Emergency Levy	312,608	319,868	(7,260)
MIS	5,000	7,614	(2,614)
School Net	7,592	8,252	(660)
Ohio Reads	7,500	8,100	(600)
School Reading Grants	0	4,559	(4,559)
Title VI-B	117,556	135,425	(17,869)
Title I	31,532	45,273	(13,741)
Title VI	8,500	10,080	(1,580)
Title II	0	27,961	(27,961)
Bond Retirement	202,664	376,010	(173,346)
Permanent Improvement	105,701	166,828	(61,127)
Lunchroom	300,877	310,779	(9,902)
Self Insurance	909,453	1,303,399	(393,946)
September 2003 Fund	Estimated Resources Plus Unencumbered Balance	Appropriations	Variance
Ohio Reads	\$7,500	\$15,000	(\$7,500)
Title II	25	27,986	(27,961)
Lunchroom	300,877	341,477	(40,600)

The District should obtain the required "do not exceed" certificate from the County Fiscal Officer when amending appropriations and estimated resources as required by the aforementioned Section. The District should monitor appropriations versus estimated resources and amend the appropriation and/or estimated resources, as necessary, to ensure that appropriations do not exceed estimated resources.

Finding Number	2004-005
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Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The District had several negative fund balances throughout the year. For the months tested we noted the following negative fund balances:

July 2004 Fund	Negative Fund Balance	January 2004 Fund	Negative Fund Balance
Bond Retirement	(\$107,658)	General	(\$187,179)
Lunchroom	(6,208)	Bond Retirement	(27,565)
Emergency Levy	(188,675)	Lunchroom	(92,751)
Title VI B	(68,430)	Uniform School	(10,734)
Title I	(4,098)	Emergency Levy	(136,541)
Title II	(2,912)	Title VI B	(66,509)
		Title VI	(3,440)
		Title II	(2,635)
January 2003 Fund	Negative Fund Balance	April 2003 Fund	Negative Fund Balance
General	(\$332,168)	Bond Retirement	(\$256)
Bond Retirement	(225,754)	Lunchroom	(42,944)
Lunchroom	(75,511)	Uniform School	(57,585)
Emergency Levy	(127,183)	MIS	(480)
Ohio Reads	(600)		
Title VI B	(43,210)		
Title I	(4,098)		
Drug Free	(1,046)		
Title II	(4,484)		

To alleviate negative cash balances, the District should advance monies from the General Fund, as needed, to cover anticipated deficits. The District should review the Auditor of State Bulletin 1997-003 regarding advances.

Finding Number	2004-006
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Transfers and Advances Approval

During 2004 and 2003, inter-fund transfers and advances were approved by the Board; however, the Board resolutions did not specifically state the fund(s) which made or received the transfer and/or advance. In addition, during 2004, items that were considered transfers were recorded as advances; advances were recorded as transfers; and amounts were not recorded to the proper Board approved fund(s) on the financial statements. The financial statements were adjusted to properly reflect the transfers and advanced which were approved by the Board. The adjustments ranged from \$34,000 to \$68,000.

Finding Number	2004-006 (Continued)
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Transfers and Advances Approval (Continued)

The District should prepare the list of transfers and advances for Board approval with the fund receiving and the fund disbursing the transfer and advance. Also, the Board approved amount should be adhered to when posting the transfers/advances to the financial ledgers. The Board should ensure the purpose of the fund that the monies being advanced to is consistent with the purpose of the fund the monies are being advanced from.

Finding Number	2004-007
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Payroll Approved Contracts and Timecards for Employees

During testing of the payroll disbursements the following was noted:

- A timecard was not available for an employee who charged 6 hours overtime (less than \$100); however, the overall payroll was approved by the Treasurer.
- Board approved salary notices/contracts were not available in the personnel files for 12 of 60 (20%) of the employees tested. Out of the 12 instances, one was noted involving the prior Payroll Clerk who received a 5.88% increase in pay in the last month before her retirement (less than \$100).
- Employees approved contract or salary increase was not entered into the system for 3 of 60 (5%) of the employees tested. The errors (less than \$30) were corrected at a later date with the employee receiving a retroactive pay.

To improve accountability over the payroll disbursements, the District should:

- Obtain timecards from all non-salaried employees and all employees that work overtime. The time card should be signed by the employee and the employee's supervisor for approval of the hours worked and noted by the Payroll Clerk as agreement of the hours being entered into the accounting system for payment with the approved time card.
- Salary notices/contracts should be completed at the time of hire and at each time there is a change in employee salary. The original contract should be signed, at a minimum, by the employee, the Board President, and the Treasurer. All subsequent modifications to the salary notice should be signed, at a minimum, by the Board President and the Treasurer.
- Implement procedures having an individual enter all the employee's salaries and subsequent changes to salaries for annual increases, etc. Then assign a separate individual independent from the processing of payroll, review the salary notices and the amounts entered into the system to ensure that employee's salaries are based on Board approved amounts.

Finding Number	2004-008
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Budgetary

During our testing of budgetary reporting and compliance, we noted the following:

- The District received 4 amendments to its Certificate of Estimated Resources in 2004 and 3 amendments in 2003. These amendments and the original certificate of estimated resources were not posted to the District's accounting system. Only the Final Certificate of Estimated Resources (amendments number 4 and number 3 for 2004 and 2003, respectively) were posted to the accounting system which was completed only for the month of June 2004 and June 2003.
- The Board does not receive monthly budgetary reports to compare Appropriations to Fiscal Year to Date Expenditures plus Encumbrances and Estimated Resources to Actual Revenue.

The District should ensure the accounting system reflects the original and all amendments to the Certificate of Estimated Resources and the Appropriation measures approved by the Board and be updated on a timely basis. In addition, to improve budgetary reporting and compliance, the Board should receive, review and approve reports at the monthly meetings comparing the actual revenue to the estimated revenue and the expenditures plus encumbrances to the appropriations. The timely posting, presentation and approval of these reports to the Board will help management make informed financial decisions.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10977-001	Ohio Rev. Code Section 5705.40, Delegating Authority of Final Appropriations Ohio Rev. Code Section 5705.41 (B) Expenditures Plus Encumbrances Exceeding Appropriations	No	Partially Corrected. Final Appropriations were approved by the Board of Education before the end of the Fiscal Year. Expenditures plus encumbrances still exceeded appropriations throughout fiscal year 2004 and 2003.
2002-10977-002	Ohio Admin. Code Section 117-2-03, Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles	No	Not Corrected
2002-10977-003	Ohio Rev. Code Section 5705.10, Negative Fund Balances	No	Not Corrected
2002-10977-004	Ohio Rev. Code Section 133.301, Additional Borrowing Authority for Boards of Education	No	Finding No Longer Valid



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**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT 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
DECEMBER 7, 2004**