



**Auditor of State
Betty Montgomery**

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Monroeville Local School District
Huron County
101 West Street
Monroeville, Ohio 44847-9439

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 the Monroeville Local School District, Huron County, (the District), as of and for the year ended June 30 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 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 the Monroeville Local School District, Huron County, Ohio, as of June 30 2004, and the respective changes in financial position, thereof and the respective 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, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005, on our consideration of the Government'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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

April 21, 2005

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

The discussion and analysis of the Monroeville 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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$214,462 which represents a 5.34 percent increase from 2003.
- General revenues accounted for \$5,360,185 in revenue or 84.71 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$967,738 or 15.29 percent of total revenues of \$6,327,923.
- The District had \$6,113,461 in expenses related to governmental activities; \$967,738 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,360,185 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,461,849 in revenues and \$5,248,640 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$213,209 from \$2,740,104 to \$2,953,313.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. 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.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The District as a Whole

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

| | Net Assets | |
|---|------------------------------------|------------------------------------|
| | Governmental Activities 2004 | Governmental Activities 2003 |
| Assets | | |
| Current and other assets | \$ 6,004,333 | \$ 5,958,198 |
| Capital assets | 1,389,448 | 1,418,710 |
| <i>Total assets</i> | 7,393,781 | 7,376,908 |
| Liabilities | | |
| Current liabilities | 2,728,616 | 2,934,195 |
| Long-term liabilities | 431,965 | 423,975 |
| <i>Total liabilities</i> | 3,160,581 | 3,358,170 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 1,269,216 | 1,281,933 |
| Restricted | 64,557 | 30,668 |
| Unrestricted | 2,899,427 | 2,706,137 |
| <i>Total net assets</i> | \$ 4,233,200 | \$ 4,018,738 |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$4,233,200. Of this total, \$2,899,427 is unrestricted in use.

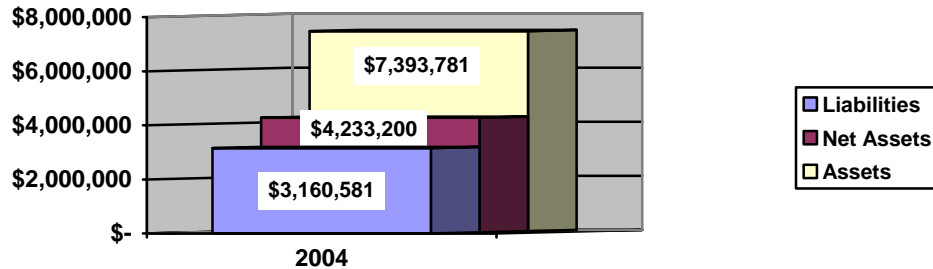
At year-end, capital assets represented 18.79 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,269,216. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$64,557, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,899,427 may be used to meet the District's ongoing obligations to the students and creditors.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

| Change in Net Assets | |
|------------------------------------|------------------------------------|
| | Governmental Activities 2004 |
| Revenues | |
| Program revenues: | |
| Charges for services and sales | \$ 464,807 |
| Operating grants and contributions | 502,931 |
| General revenues: | |
| Property taxes | 2,803,525 |
| Grants and entitlements | 2,482,846 |
| Investment earnings | 46,560 |
| Other | 27,254 |
| <i>Total revenues</i> | <u>6,327,923</u> |
| Expenses | |
| Program expenses: | |
| Instruction: | |
| Regular | 2,610,940 |
| Special | 646,794 |
| Vocational | 221,545 |
| Other | 67,890 |

(Continued)

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Change in Net Assets (Continued)

| | |
|--|--------------------------|
| Support services: | |
| Pupil | 227,640 |
| Instructional staff | 179,723 |
| Board of education | 14,948 |
| Administration | 533,218 |
| Fiscal | 204,569 |
| Business | 61,856 |
| Operations and maintenance | 538,601 |
| Pupil transportation | 260,203 |
| Central | 6,258 |
| Operations of non-instructional services | 87,324 |
| Food service operations | 238,389 |
| Extracurricular activities | 206,495 |
| Interest and fiscal charges | 7,068 |
| <i>Total expenses</i> | <u>6,113,461</u> |
| <i>Change in net assets</i> | <u><u>\$ 214,462</u></u> |

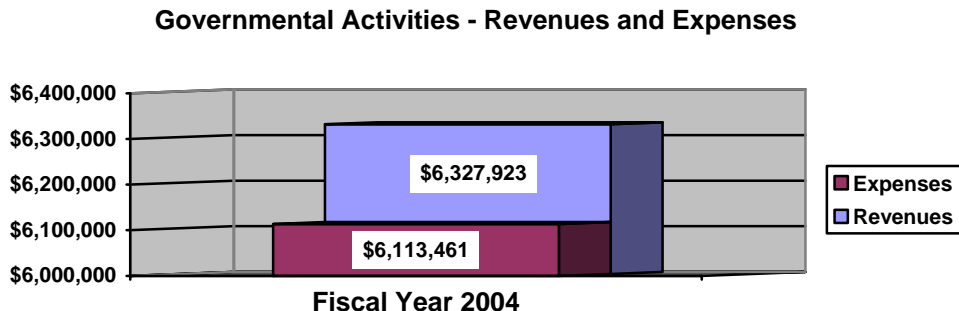
Governmental Activities

Net assets of the District's governmental activities increased \$214,462. Total governmental expenses of \$6,113,461 were offset by program revenues of \$967,738 and general revenues of \$5,360,185. Program revenues supported 15.83 percent 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 83.54 percent of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,547,169 or 58.02 percent of total governmental expenses for fiscal 2004.

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



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

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

| Governmental Activities | | |
|--|-----------------------------------|---------------------------------|
| | Total Cost of Services 2004 | Net Cost of Services 2004 |
| Program expenses | | |
| Instruction: | | |
| Regular | \$ 2,610,940 | \$ 2,300,804 |
| Special | 646,794 | 466,825 |
| Vocational | 221,545 | 221,545 |
| Other | 67,890 | 67,890 |
| Support services: | | |
| Pupil | 227,640 | 198,338 |
| Instructional staff | 179,723 | 172,767 |
| Board of education | 14,948 | 14,948 |
| Administration | 533,218 | 533,218 |
| Fiscal | 204,569 | 199,569 |
| Business | 61,856 | 61,856 |
| Operations and maintenance | 538,601 | 538,601 |
| Pupil transportation | 260,203 | 260,203 |
| Central | 6,258 | 6,258 |
| Operations of non-instructional services | 87,324 | (2,149) |
| Food service operations | 238,389 | (15,435) |
| Extracurricular activities | 206,495 | 113,417 |
| Interest and fiscal charges | 7,068 | 7,068 |
| <i>Total expenses</i> | \$ 6,113,461 | \$ 5,145,723 |

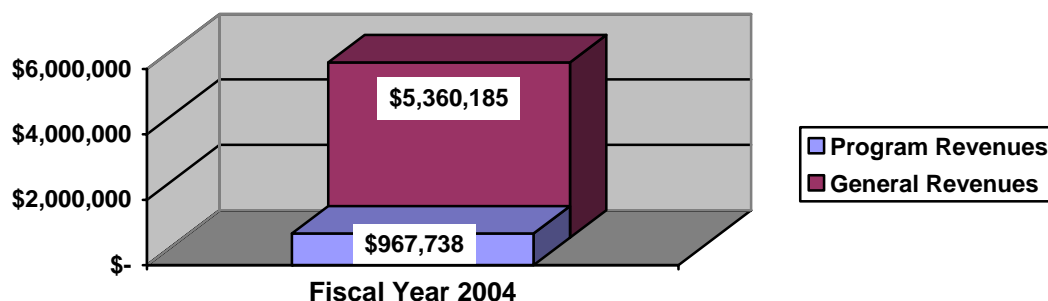
The dependence upon tax and other general revenues for governmental activities is apparent, 86.18 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.17 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,165,358, which is higher than last year's total of \$2,957,249. The June 30, 2003 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, 2004 and 2003.

| | Fund Balance June 30, 2004 | Fund Balance June 30, 2003 | Increase (Decrease) | Percentage Change |
|--------------------|-------------------------------|-------------------------------|------------------------|----------------------|
| General | \$ 2,953,313 | \$ 2,740,104 | \$ 213,209 | 7.78 % |
| Other Governmental | 212,045 | 217,145 | (5,100) | (2.35) % |
| Total | \$ 3,165,358 | \$ 2,957,249 | \$ 208,109 | 7.04 % |

General Fund

The District's general fund balance increased \$213,209 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Tax revenue increased due to advances available. Salaries increased due to retirement pay and medical insurance increases. Facilities acquisition decreased in 2004 due to the purchase of modular classrooms in 2003. Revenues exceeded expenditures for fiscal year 2004 by \$213,209. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | 2004 Amount | 2003 Amount | Increase (Decrease) | Percentage Change |
|-------------------------|---------------------|---------------------|------------------------|----------------------|
| Revenues | | | | |
| Taxes | \$ 2,688,916 | \$ 2,360,027 | \$ 328,889 | 13.94 % |
| Earnings on investments | 45,447 | 38,652 | 6,795 | 17.58 % |
| Intergovernmental | 2,473,802 | 2,580,171 | (106,369) | (4.12) % |
| Other revenues | 253,684 | 205,143 | 48,541 | 23.66 % |
| Total | \$ 5,461,849 | \$ 5,183,993 | \$ 277,856 | 5.36 % |

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

| | 2004 Amount | 2003 Amount | Increase (Decrease) | Percentage Change |
|---|---------------------|---------------------|------------------------|----------------------|
| Expenditures | | | | |
| Instruction | \$ 3,162,264 | \$ 2,693,272 | \$ 468,992 | 17.41 % |
| Support services | 1,915,509 | 1,746,991 | 168,518 | 9.65 % |
| Extracurricular activities | 128,604 | 130,027 | (1,423) | (1.09) % |
| Facilities acquisition and construction | 18,650 | 113,860 | (95,210) | (83.62) % |
| Debt service | 23,613 | 23,637 | (24) | (0.10) % |
| <i>Total</i> | <u>\$ 5,248,640</u> | <u>\$ 4,707,787</u> | <u>\$ 540,853</u> | 11.49 % |

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,344,600 and final budgeted revenues and other financing sources were \$5,194,600. Actual revenues and other financing sources for fiscal 2004 was \$5,177,704. This represents a \$16,896 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,602,727 were increased to \$5,766,564 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$5,405,905, which was \$360,659 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$1,389,448 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

| Capital Assets at June 30 (Net of Depreciation) | | |
|--|-------------------------|---------------------|
| | Governmental Activities | |
| | 2004 | 2003 |
| Land | \$ 77,982 | \$ 77,982 |
| Land improvements | 68,917 | 62,990 |
| Building and improvements | 986,735 | 973,240 |
| Furniture and equipment | 239,073 | 285,766 |
| Vehicles | 16,741 | 18,732 |
| <i>Total</i> | <u>\$ 1,389,448</u> | <u>\$ 1,418,710</u> |

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The overall decrease in capital assets of \$29,262 is due to capital outlays of \$117,735 being less than depreciation expense of \$145,832 and disposals of \$1,165 (net of accumulated depreciation) in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$120,232 in energy conservation notes outstanding. Of this total, \$17,455 is due within one year and \$102,777 is due within greater than one year. The following table summarizes the notes outstanding.

| Outstanding Debt, at Year End | | |
|-------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2004 | Governmental Activities 2003 |
| Energy conservation notes | \$ 120,232 | \$ 136,777 |

At June 30, 2004, the District's overall legal debt margin was \$7,248,416, an unvoted debt margin of \$80,538 and an energy conservation debt margin of \$604,610.

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

Current Financial Related Activities

As shown on the preceding pages, the District relies on grants and entitlements and property taxes. Tax revenues have increased while intergovernmental revenues have decreased. Even though there has been a small increase in revenues, the increase in expenditures was double the revenue increases in 2004. As this trend continues, carryover funds are depleted in the 5th year of the five-year forecast.

One of the challenges facing the District is passage of operating and emergency levies which must be on the ballot each year of the forecast. With the increase in valuation (thus increase in taxes) it becomes increasingly more difficult to renew these levies. The growth in taxes comes mainly from real estate and farming. The District is mainly rural and has a small industrial base.

Another challenge is the need to update and add to the current school facilities. Facilities have not been significantly updated to meet the needs of increased enrollment and additions to course offerings necessary to be academically proficient. The plan to build a new 7-12 building was rejected twice by the voters. Because Ohio School facilities required us to build a PreK-12 facility, the total cost would have to be paid by taxpayers. The Board of Education believes there are several reasons for the rejection of the new facility and have decided to ask voters to approve a bond issue for additions and renovations to the existing facility. As a result of this new plan, the District will not be eligible for Ohio School Facilities funds for a number of years.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Susan Ammanniti, Treasurer, Monroeville Local School District, 101 West Street, Monroeville, Ohio 44847.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 3,381,207 |
| Receivables: | |
| Taxes | 2,519,395 |
| Accounts | 777 |
| Intergovernmental | 38,787 |
| Accrued interest | 13,264 |
| Prepayments | 28,454 |
| Materials and supplies inventory | 22,449 |
| Capital assets: | |
| Land | 77,982 |
| Depreciable capital assets, net | 1,311,466 |
| <i>Capital assets, net</i> | 1,389,448 |
| <i>Total assets</i> | 7,393,781 |
| Liabilities: | |
| Accounts payable | 97,063 |
| Accrued wages and benefits | 526,094 |
| Pension obligation payable | 131,697 |
| Intergovernmental payable | 36,869 |
| Deferred revenue | 1,936,893 |
| Long-term liabilities: | |
| Due within one year | 71,713 |
| Due in more than one year | 360,252 |
| <i>Total liabilities</i> | 3,160,581 |
| Net Assets: | |
| Invested in capital assets, net of related debt | 1,269,216 |
| Restricted for: | |
| Capital projects | 64,557 |
| Unrestricted | 2,899,427 |
| <i>Total net assets</i> | \$ 4,233,200 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense)</u> |
|---|---------------------|---|---|--|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | <u>Revenue and Changes in Net Assets</u> |
| | | | | <u>Governmental Activities</u> |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 2,610,940 | \$ 210,890 | \$ 99,246 | \$ (2,300,804) |
| Special | 646,794 | 15,540 | 164,429 | (466,825) |
| Vocational | 221,545 | - | - | (221,545) |
| Other | 67,890 | - | - | (67,890) |
| Support services: | | | | |
| Pupil | 227,640 | - | 29,302 | (198,338) |
| Instructional staff | 179,723 | - | 6,956 | (172,767) |
| Board of education | 14,948 | - | - | (14,948) |
| Administration | 533,218 | - | - | (533,218) |
| Fiscal | 204,569 | - | 5,000 | (199,569) |
| Business | 61,856 | - | - | (61,856) |
| Operations and maintenance | 538,601 | - | - | (538,601) |
| Pupil transportation | 260,203 | - | - | (260,203) |
| Central | 6,258 | - | - | (6,258) |
| Operation of non-instructional services | 87,324 | - | 89,473 | 2,149 |
| Food service operations | 238,389 | 159,152 | 94,672 | 15,435 |
| Extracurricular activities | 206,495 | 79,225 | 13,853 | (113,417) |
| Interest and fiscal charges | 7,068 | - | - | (7,068) |
| <i>Total governmental activities</i> | <u>\$ 6,113,461</u> | <u>\$ 464,807</u> | <u>\$ 502,931</u> | <u>(5,145,723)</u> |

General Revenues:

| | |
|---|---------------------|
| Property taxes levied for: | |
| General purposes | 2,712,933 |
| Capital projects | 90,592 |
| Grants and entitlements not restricted to specific programs | 2,482,846 |
| Investment earnings | 46,560 |
| Miscellaneous | 27,254 |
| <i>Total general revenues</i> | <u>5,360,185</u> |
| <i>Change in net assets</i> | 214,462 |
| Net assets at beginning of year (restated) | 4,018,738 |
| <i>Net assets at end of year</i> | <u>\$ 4,233,200</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 3,078,126 | \$ 286,144 | \$ 3,364,270 |
| Receivables: | | | |
| Taxes | 2,437,199 | 82,196 | 2,519,395 |
| Accounts | 183 | 594 | 777 |
| Intergovernmental | - | 38,787 | 38,787 |
| Accrued interest | 13,264 | - | 13,264 |
| Interfund loan receivable | 20,461 | - | 20,461 |
| Prepayments | 28,402 | 52 | 28,454 |
| Materials and supplies inventory | 15,809 | 6,640 | 22,449 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | 16,937 | - | 16,937 |
| <i>Total assets</i> | <u>\$ 5,610,381</u> | <u>\$ 414,413</u> | <u>\$ 6,024,794</u> |
| Liabilities: | | | |
| Accounts payable | \$ 64,593 | \$ 32,470 | \$ 97,063 |
| Accrued wages and benefits | 485,511 | 40,583 | 526,094 |
| Compensated absences payable | 43,118 | - | 43,118 |
| Pension obligation payable | 74,224 | 6,686 | 80,910 |
| Intergovernmental payable | 31,742 | 5,127 | 36,869 |
| Interfund loan payable | - | 20,461 | 20,461 |
| Deferred revenue | 1,957,880 | 97,041 | 2,054,921 |
| <i>Total liabilities</i> | <u>2,657,068</u> | <u>202,368</u> | <u>2,859,436</u> |
| Fund Balances: | | | |
| Reserved for encumbrances | 177,866 | 48,303 | 226,169 |
| Reserved for materials and supplies inventory | 15,809 | 6,640 | 22,449 |
| Reserved for prepayments | 28,402 | 52 | 28,454 |
| Reserved for property tax unavailable for appropriation | 491,240 | 15,823 | 507,063 |
| Reserved for school bus purchases | 16,937 | - | 16,937 |
| Reserved for unclaimed monies | 620 | - | 620 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 2,222,439 | - | 2,222,439 |
| Special revenue funds | - | 131,534 | 131,534 |
| Capital projects funds | - | 9,693 | 9,693 |
| <i>Total fund balances</i> | <u>2,953,313</u> | <u>212,045</u> | <u>3,165,358</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 5,610,381</u> | <u>\$ 414,413</u> | <u>\$ 6,024,794</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

| | | |
|--|------------------|----------------------------|
| Total governmental fund balances | | \$ 3,165,358 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 1,389,448 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 75,439 | |
| Intergovernmental revenue | 30,668 | |
| Accrued interest | <u>11,921</u> | |
| | | 118,028 |
| Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (268,615) | |
| Pension obligation payable | (50,787) | |
| Energy conservation notes payable | <u>(120,232)</u> | |
| | | <u>(439,634)</u> |
| <i>Net assets of governmental activities</i> | | <u><u>\$ 4,233,200</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 2,688,916 | \$ 89,822 | \$ 2,778,738 |
| Tuition | 196,256 | - | 196,256 |
| Charges for services | - | 159,152 | 159,152 |
| Earnings on investments | 45,447 | 1,544 | 46,991 |
| Extracurricular | - | 78,188 | 78,188 |
| Classroom materials and fees | 30,174 | - | 30,174 |
| Other local revenues | 27,254 | 19,890 | 47,144 |
| Intergovernmental - State | 2,473,802 | 153,499 | 2,627,301 |
| Intergovernmental - Federal | - | 312,705 | 312,705 |
| <i>Total revenues</i> | <u>5,461,849</u> | <u>814,800</u> | <u>6,276,649</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 2,424,093 | 93,612 | 2,517,705 |
| Special | 458,068 | 172,459 | 630,527 |
| Vocational | 212,213 | - | 212,213 |
| Other | 67,890 | - | 67,890 |
| Support services: | | | |
| Pupil | 195,330 | 27,406 | 222,736 |
| Instructional staff | 167,299 | 7,399 | 174,698 |
| Board of education | 14,093 | - | 14,093 |
| Administration | 511,119 | 12,064 | 523,183 |
| Fiscal | 204,417 | 5,884 | 210,301 |
| Business | 56,152 | - | 56,152 |
| Operations and maintenance | 508,038 | - | 508,038 |
| Pupil transportation | 254,267 | 450 | 254,717 |
| Central | 4,794 | - | 4,794 |
| Operation of non-instructional services | - | 87,521 | 87,521 |
| Food service operations | - | 233,231 | 233,231 |
| Extracurricular activities | 128,604 | 78,672 | 207,276 |
| Facilities acquisition and construction | 18,650 | 101,202 | 119,852 |
| Debt service: | | | |
| Principal retirement | 16,545 | - | 16,545 |
| Interest and fiscal charges | 7,068 | - | 7,068 |
| <i>Total expenditures</i> | <u>5,248,640</u> | <u>819,900</u> | <u>6,068,540</u> |
| <i>Net change in fund balances</i> | 213,209 | (5,100) | 208,109 |
| Fund balances at beginning of year (restated) | 2,740,104 | 217,145 | 2,957,249 |
| <i>Fund balances at end of year</i> | <u>\$ 2,953,313</u> | <u>\$ 212,045</u> | <u>\$ 3,165,358</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

| | | |
|---|-----------|----------------|
| Net change in fund balances - total governmental funds | \$ | 208,109 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>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 depreciation expense (\$145,832) exceeds capital outlays (\$117,735) in the current period.</p> | | (28,097) |
| <p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, trade-ins, and donations) is to decrease net assets.</p> | | (1,165) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | 51,274 |
| <p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | | 16,545 |
| <p>Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> | | (32,204) |
| | | (32,204) |
| <i>Change in net assets of governmental activities</i> | \$ | 214,462 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 2,443,915 | \$ 2,375,000 | \$ 2,369,470 | \$ (5,530) |
| Tuition | 164,643 | 160,000 | 196,256 | 36,256 |
| Earnings on investments | 61,741 | 60,000 | 46,968 | (13,032) |
| Classroom materials and fees | 25,406 | 25,400 | 30,302 | 4,902 |
| Other local revenues | 2,058 | 2,000 | 15,619 | 13,619 |
| Intergovernmental - State | <u>2,641,486</u> | <u>2,567,000</u> | <u>2,473,802</u> | <u>(93,198)</u> |
| <i>Total revenues</i> | <u>5,339,249</u> | <u>5,189,400</u> | <u>5,132,417</u> | <u>(56,983)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,524,825 | 2,535,285 | 2,417,400 | 117,885 |
| Special | 482,071 | 482,071 | 468,544 | 13,527 |
| Vocational | 222,247 | 222,247 | 214,208 | 8,039 |
| Other | 96,468 | 99,468 | 67,890 | 31,578 |
| Support services: | | | | |
| Pupil | 228,474 | 225,689 | 190,482 | 35,207 |
| Instructional staff | 190,405 | 190,405 | 163,672 | 26,733 |
| Board of education | 11,020 | 12,020 | 9,980 | 2,040 |
| Administration | 515,486 | 516,318 | 493,108 | 23,210 |
| Fiscal | 232,014 | 231,044 | 203,775 | 27,269 |
| Business | 56,400 | 56,400 | 54,758 | 1,642 |
| Operations and maintenance | 529,069 | 529,069 | 499,621 | 29,448 |
| Pupil transportation | 301,003 | 301,003 | 270,131 | 30,872 |
| Central | 7,000 | 7,800 | 7,579 | 221 |
| Extracurricular activities | 137,595 | 137,595 | 129,220 | 8,375 |
| Facilities acquisition and construction | - | 151,500 | 141,463 | 10,037 |
| Debt Service: | | | | |
| Principal retirement | 16,545 | 16,545 | 16,545 | - |
| Interest and fiscal charges | <u>7,105</u> | <u>7,105</u> | <u>7,068</u> | <u>37</u> |
| <i>Total expenditures</i> | <u>5,557,727</u> | <u>5,721,564</u> | <u>5,355,444</u> | <u>366,120</u> |
| <i>Excess of revenues under expenditures</i> | <u>(218,478)</u> | <u>(532,164)</u> | <u>(223,027)</u> | <u>309,137</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 5,145 | 5,000 | 11,537 | 6,537 |
| Advances in | - | - | 33,750 | 33,750 |
| Advances (out) | (45,000) | (45,000) | (50,461) | (5,461) |
| Proceeds from sale of capital assets | <u>206</u> | <u>200</u> | <u>-</u> | <u>(200)</u> |
| <i>Total other financing sources (uses)</i> | <u>(39,649)</u> | <u>(39,800)</u> | <u>(5,174)</u> | <u>34,626</u> |
| <i>Net change in fund balance</i> | <u>(258,127)</u> | <u>(571,964)</u> | <u>(228,201)</u> | <u>343,763</u> |
| Fund balance at beginning of year (restated) | 2,968,307 | 2,968,307 | 2,968,307 | - |
| Prior year encumbrances appropriated | <u>124,617</u> | <u>124,617</u> | <u>124,617</u> | <u>-</u> |
| <i>Fund balance at end of year</i> | <u>\$ 2,834,797</u> | <u>\$ 2,520,960</u> | <u>\$ 2,864,723</u> | <u>\$ 343,763</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 29,479 | \$ 32,793 |
| Receivables: | | |
| Accrued interest | 1,350 | - |
| <i>Total assets</i> | 30,829 | \$ 32,793 |
| Liabilities: | | |
| Accounts payable | 620 | \$ 1,805 |
| Due to students | - | 30,988 |
| <i>Total liabilities</i> | 620 | \$ 32,793 |
| Net Assets: | | |
| Held in trust for scholarships | 30,209 | |
| <i>Total net assets</i> | \$ 30,209 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 643 |
| Gifts and contributions | 9,217 |
| <i>Total additions</i> | 9,860 |
| Deductions: | |
| Scholarships awarded | 7,150 |
| <i>Change in net assets</i> | 2,710 |
| Net assets at beginning of year (restated) | 27,499 |
| <i>Net assets at end of year</i> | \$ 30,209 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Monroeville Local School District (the District) is located in Huron County and encompasses the Village of Monroeville and portions of surrounding townships in Huron and Erie Counties.

The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 550th largest by enrollment among the 613 public school districts in the state, and the smallest in Huron County. It currently operates one elementary school and one comprehensive high school. The District employs 29 non-certified and 54 certified employees to provide services to 773 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The reporting entity is 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 the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each school district. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the Erie-Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Career Center (Center)

The Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Center accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. 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 Erie-Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Monroeville Public Library

The District appoints the trustees of the library and approves its budget to comply with state code requirements, but is not involved in budgeting or management of the library and does not subsidize and finance the operation of the library.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 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.

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 is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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.

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.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

D. Basis of Accounting

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

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

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function, and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function, and object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and object level.

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

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maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$45,447, which includes \$3,197 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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. The District does not possess infrastructure.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

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

| Description | Governmental Activities Estimated Lives |
|----------------------------|---|
| Land improvements | 5 - 20 years |
| Buildings and improvements | 20 - 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 6 - 10 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 severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, 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.

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(Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Parochial Schools

Within the District boundaries, St. Joseph Elementary is operated through the Toledo Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as

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directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a special revenue fund for financial reporting purposes.

P. 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.

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to purchase a school bus with funds provided by the State of Ohio.

R. 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the

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government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

| | General | Nonmajor | Total |
|---|--------------|------------|--------------|
| Fund balance June 30, 2003 | \$ 2,708,277 | \$ 80,072 | \$ 2,788,349 |
| Fund reclassifications | 27,631 | 137,073 | 164,704 |
| Implementation of GASB Interpretation No. 6 | 4,196 | - | 4,196 |
| Restated fund balance, June 30, 2003 | \$ 2,740,104 | \$ 217,145 | \$ 2,957,249 |

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

| | |
|---|--------------|
| | Total |
| Restated fund balance, June 30, 2003 | \$ 2,957,249 |
| GASB 34 adjustments: | |
| Long-term (deferred) assets | 66,754 |
| Capital assets | 1,418,710 |
| Pension obligation | (38,766) |
| Long-term liabilities | (385,209) |
| Governmental activities net assets, June 30, 2003 | \$ 4,018,738 |

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$2,944,429 to \$2,968,307 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34.

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(Continued)

B. Deficit Fund Balances

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

| <u>Nonmajor Funds</u> | Deficit |
|-----------------------|----------|
| Summer Intervention | \$ 6,258 |
| Title VI-B | 13,941 |
| Title I | 8,933 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal 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.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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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 thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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

Cash on Hand: At year-end, the District had \$2,150 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*".

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,039,034 and the bank balance was \$1,195,448. Of the bank balance:

1. \$300,000 was covered by federal depository insurance deposited with the District; and
2. \$650,000 was secured by collateral held by third party trustees in the name of the District; and
3. \$245,448 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements

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(Continued)

for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

| | Reported Amount | Fair Value |
|-------------------------|--------------------|---------------|
| Investment in STAR Ohio | \$ 2,402,295 | \$ 2,402,295 |

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

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|--------------|
| GASB Statement No. 9 | \$ 3,443,479 | \$ - |
| Investments of the cash management pool: | | |
| Investment in STAR Ohio | (2,402,295) | 2,402,295 |
| Cash on hand | (2,150) | - |
| GASB Statement No. 3 | \$ 1,039,034 | \$ 2,402,295 |

5. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-----------------------------|-----------|
| General | Nonmajor governmental funds | \$ 20,461 |

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. 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 Huron County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion

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(Continued)

of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$491,240 in the general fund and \$15,823 in the Permanent Improvement capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$171,794 in the general fund, and \$5,868 in the Permanent Improvement capital projects fund.

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

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

| | 2003 Second Half Collections | | 2004 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/residential and other real estate | \$ 64,341,240 | 83.96% | \$ 69,465,820 | 86.25% |
| Public utility personal | 2,813,890 | 3.67% | 2,901,050 | 3.60% |
| Tangible personal property | 9,480,160 | 12.37% | 8,171,090 | 10.15% |
| Total | \$ 76,635,290 | 100.00% | \$ 80,537,960 | 100.00% |
| Tax rate per \$1,000 of assessed valuation | \$ 48.10 | | \$ 46.90 | |

7. RECEIVABLES

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

| Governmental Activities: | |
|---------------------------------|---------------------|
| Taxes | \$ 2,519,395 |
| Accounts | 777 |
| Intergovernmental | 38,787 |
| Accrued interest | 13,264 |
| <i>Total</i> | \$ 2,572,223 |

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

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(Continued)

8. CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to fund reclassifications and the depreciation of capital assets in accordance with GASB Statement No. 34.

| | Balance 6/30/03 | Adjustments | Restated Balance 6/30/03 |
|--|---------------------|-----------------------|--------------------------------|
| Governmental Activities | | | |
| Capital assets, not being depreciated: | | | |
| Land | \$ 77,982 | \$ - | \$ 77,982 |
| <i>Total capital assets, not being depreciated</i> | <u>77,982</u> | <u>-</u> | <u>77,982</u> |
| Capital assets, being depreciated: | | | |
| Land improvements | 155,037 | - | 155,037 |
| Buildings and improvements | 2,140,183 | - | 2,140,183 |
| Furniture and equipment | 803,365 | 42,004 | 845,369 |
| Vehicles | 427,616 | - | 427,616 |
| <i>Total capital assets, being depreciated</i> | <u>3,526,201</u> | <u>42,004</u> | <u>3,568,205</u> |
| <i>Less: accumulated depreciation:</i> | <u>-</u> | <u>(2,227,477)</u> | <u>(2,227,477)</u> |
| Governmental activities capital assets, net | <u>\$ 3,604,183</u> | <u>\$ (2,185,473)</u> | <u>\$ 1,418,710</u> |

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

| | Restated Balance 06/30/03 | Additions | Deductions | Balance 06/30/04 |
|--|---------------------------------|--------------------|-------------------|---------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 77,982 | \$ - | \$ - | \$ 77,982 |
| <i>Total capital assets, not being depreciated</i> | <u>77,982</u> | <u>-</u> | <u>-</u> | <u>77,982</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 155,037 | 12,485 | - | 167,522 |
| Buildings and improvements | 2,140,183 | 66,171 | - | 2,206,354 |
| Furniture and equipment | 845,369 | 39,079 | (11,879) | 872,569 |
| Vehicles | 427,616 | - | - | 427,616 |
| <i>Total capital assets, being depreciated</i> | <u>3,568,205</u> | <u>117,735</u> | <u>(11,879)</u> | <u>3,674,061</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (92,047) | (6,558) | - | (98,605) |
| Buildings and improvements | (1,166,943) | (52,676) | - | (1,219,619) |
| Furniture and equipment | (559,603) | (84,607) | 10,714 | (633,496) |
| Vehicles | (408,884) | (1,991) | - | (410,875) |
| <i>Total accumulated depreciation</i> | <u>(2,227,477)</u> | <u>(145,832)</u> | <u>10,714</u> | <u>(2,362,595)</u> |
| Governmental activities capital assets, net | <u>\$ 1,418,710</u> | <u>\$ (28,097)</u> | <u>\$ (1,165)</u> | <u>\$ 1,389,448</u> |

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

Depreciation expense was charged to governmental functions as follows:

| | | | |
|-----------------------------------|-----------|----------------|-------------|
| <u>Instruction:</u> | | | |
| Regular | \$ | 111,085 | |
| Vocational | | 9,185 | |
| <u>Support Services:</u> | | | |
| Pupil | | 896 | |
| Instructional staff | | 5,127 | |
| Board of education | | 855 | |
| Administration | | 3,110 | |
| Fiscal | | 1,017 | |
| Business | | 744 | |
| Operations and maintenance | | 8,550 | |
| Pupil transportation | | 4,052 | |
| Food service operations | | 1,211 | |
| | | <hr/> | |
| <i>Total depreciation expense</i> | \$ | 145,832 | <hr/> <hr/> |

9. LONG-TERM OBLIGATIONS

- A.** The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$7,908 from \$240,525 to \$248,433 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of \$33,744 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$25,836 from \$411,046 to \$385,210. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

| | Restated Balance Outstanding 06/30/03 | Additions | Reductions | Balance Outstanding 06/30/04 | Amounts Due in One Year |
|---|--|------------------|--------------------|------------------------------------|-------------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 248,433 | \$ 67,180 | \$ (3,880) | \$ 311,733 | \$ 54,258 |
| Energy conservation note | 136,777 | - | (16,545) | 120,232 | 17,455 |
| <i>Total long-term obligations, governmental activities</i> | \$ 385,210 | \$ 67,180 | \$ (20,425) | \$ 431,965 | \$ 71,713 |

Energy Conservation Note:

On November 1, 1999, the District issued unvoted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund;

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes and loans without voter approval, and the subsequent repayment of the notes from operating revenues. The notes bear an annual interest rate of 5.50 percent and mature November 1, 2009.

Compensated absences will be paid from the funds which the employees are paid.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation note:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-------------------|------------------|-------------------|
| 2005 | \$ 17,455 | \$ 6,133 | \$ 23,588 |
| 2006 | 18,415 | 5,146 | 23,561 |
| 2007 | 19,428 | 4,106 | 23,534 |
| 2008 | 20,497 | 3,008 | 23,505 |
| 2009 | 21,624 | 1,849 | 23,473 |
| 2010 | 22,813 | 627 | 23,440 |
| <i>Total</i> | <u>\$ 120,232</u> | <u>\$ 20,869</u> | <u>\$ 141,101</u> |

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$7,248,416, an unvoted debt margin of \$80,538, and an energy conservation debt margin of \$604,610.

10. RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive 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 fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from 2003.

B. Health Care Benefits

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association, a public entity risk management pool. Monthly

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

payments are made to the Association for health, dental and vision insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120 percent of the prior year's aggregate claims. Individual coverage cannot exceed \$1,000,000 in claims during their lifetime. Financial information can be obtained by writing to the Erie-Ottawa Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

C. Workers' Compensation Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the 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 the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$63,970, \$50,395, and \$32,036, respectively; 44 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$36,121 represents the unpaid contribution for fiscal year 2004.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$330,609, \$297,642, and \$204,891, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$56,201 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$953 made by the District and \$975 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

12. 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 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$25,431 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$58,553 during the 2004 fiscal year.

13. 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.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

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

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

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

| Net Change in Fund Balance | |
|---|--------------|
| | General Fund |
| Budget basis | \$ (228,201) |
| Net adjustment for revenue accruals | 329,432 |
| Net adjustment for expenditure accruals | (123,536) |
| Net adjustment for other sources/uses | 5,174 |
| Adjustment for encumbrances | 230,340 |
| GAAP basis | \$ 213,209 |

14. 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 involved in no material litigation as either plaintiff or defendant.

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.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

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

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.

15. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

| | Textbooks | Capital Acquisition |
|--|--------------|------------------------|
| Carried forward from FY ending June 30, 2003 | \$ (90,892) | \$ - |
| Current year set-aside requirement | 100,810 | 100,810 |
| Current year offsets | - | (88,911) |
| Qualifying disbursements | (167,214) | (132,439) |
| Total | \$ (157,296) | \$ (120,540) |
| Set-aside amount carried forward to FY 2005 | \$ (157,296) | \$ - |

The District had qualifying disbursements during the year that reduced the capital acquisition set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

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

| | |
|--|-----------|
| Amount restricted for school bus purchases | \$ 16,937 |
|--|-----------|



**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**

Monroeville Local School District
Huron County
101 West Street
Monroeville, Ohio 44847-9439

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Monroeville Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 21, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 21, 2005, we reported other matters involving internal control over financial reporting.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated April 21, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

April 21, 2005

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

FINDING NUMBER 2004-001

Finding Repaid Under Audit

Monroeville Local School District's Bylaws and Policies Section 141.2 (C) states that a board member is specifically forbidden from being employed for compensation by the Board. Board Member Sandy Lonz was paid \$269.02 under a supplemental contract for the position of Key Club Advisor.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Sandy Lonz, in the amount of two hundred sixty-nine dollars (\$269) and in favor of the General Fund.

The finding for recovery against Ms. Lonz was repaid during the audit on November 2, 2004.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 24, 2005**