



**STOW-MUNROE FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**STOW-MUNROE FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Stow-Munroe Falls City School District
Summit County
4350 Allen Road
Stow, Ohio 44224

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Stow-Munroe Falls City School District, Summit County, Ohio, as of June 30, 2004, and the respective changes in financial position 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 11, 2005

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

This discussion and analysis of Stow-Munroe Falls City School District's (the "School District"), financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School 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 School District's financial performance. Since this is the second year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", analyses with prior year data are available and presented in this report.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General revenues accounted for \$46,813,711 in revenue or 91.8 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$4,166,047 or 8.2 percent of total revenues of \$50,979,758.
- The School District had \$51,138,808 in expenses related to governmental activities; program revenues offset \$4,166,047 of these expenses. \$46,813,711 of general revenues was insufficient to provide for these programs resulting in a decrease in net assets of \$159,050.
- Total expenses related to instruction amounted to \$29,173,297 million or 57.0 percent of total expenses.
- At the end of the fiscal year, the general fund is reporting a fund balance of \$3,689,333, which is a 9.3 percent decrease from the prior year fund balance of \$4,068,225.

Using this Annual Financial Report

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 School District as a financial whole, an entire operating entity. The basic financial 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 School District, presenting both an aggregate view of the School 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 present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column.

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and helps answer the question, "How did we do financially during 2004?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting, takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School District's current 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 School District's activities are considered to be all governmental activities.

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 14. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's only major governmental fund is the general fund.

Governmental Funds Most of the School 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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 financial statements.

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. A comparative analysis is presented, in aggregate, for assets, liabilities and components of net assets.

Table 1 provides a summary of the School District's net assets for 2004 and 2003.

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
Assets		
<i>Current and other assets</i>	\$ 38,670,739	\$ 36,489,796
<i>Capital assets, net of depreciation</i>	16,585,347	17,546,505
<i>Total assets</i>	<u>55,256,086</u>	<u>54,036,301</u>
Liabilities		
<i>Current and other liabilities</i>	33,615,249	30,711,811
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	2,593,327	3,076,650
<i>Due in more than one year</i>	5,686,599	6,727,879
<i>Total liabilities</i>	<u>41,895,175</u>	<u>40,516,340</u>
Net Assets		
<i>Invested in capital assets, net of debt</i>	13,566,347	13,399,505
<i>Restricted</i>	1,097,917	1,453,640
<i>Unrestricted</i>	(1,303,353)	(1,333,184)
<i>Total net assets</i>	<u>\$ 13,360,911</u>	<u>\$ 13,519,961</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School District's assets exceeded liabilities by \$13,360,911.

Capital assets, net of related debt reported on the government-wide statements represents the largest component of net assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment and vehicles, and are used to provide services to students and are not available for future spending. Although the School 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 School District's net assets, \$1,097,917, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted net assets, \$302,931 is restricted for debt service payments and \$295,688 is restricted for capital projects and \$499,298 is restricted for other purposes. The remaining balance of net assets of (\$1,303,353) is unrestricted. The reason for the deficit is due to the School District's requirement to issue debt for the Public Library, if this requirement did not exist unrestricted net assets would be \$450,851 and may be used to meet the government's ongoing obligations to students and staff.

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows change in net assets for fiscal year 2004 as compared to 2003:

Table 2
Change in Net Assets

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
Revenues		
<i>Program revenues:</i>		
Charges for services	\$ 2,007,600	\$ 1,922,341
Operating grants, contributions and interest	2,141,009	1,749,190
Capital grants and contributions	17,438	160,891
<i>General revenues:</i>		
Property taxes	27,169,033	27,149,487
Grants and entitlements	19,347,434	18,695,113
Investment earnings	115,986	138,041
Miscellaneous	181,258	427,354
Total revenues	<u>50,979,758</u>	<u>50,242,417</u>
Program Expenses		
<i>Instruction:</i>		
Regular	23,103,681	21,278,031
Special	3,835,287	3,592,459
Vocational	1,297,268	1,254,799
Adult/continuing	250	989
Other	936,811	1,048,792
<i>Support services:</i>		
Pupils	2,776,546	2,657,613
Instructional staff	2,650,470	2,269,340
Board of education	269,601	331,060
Administration	2,945,966	2,628,576
Fiscal	1,014,760	841,874
Business	488,385	378,808
Operation and maintenance of plant	4,880,797	3,816,579
Pupil transportation	2,894,856	2,462,800
Central	584,798	464,589
<i>Operation of non-instructional services:</i>		
Food service operations	1,444,664	1,275,325
Community services	501,115	458,227
Other	50	1,239
Extracurricular activities	1,214,993	948,190
Interest and fiscal charges	298,510	499,049
Total expenses	<u>51,138,808</u>	<u>46,208,339</u>
Increase (decrease) in net assets	<u>\$ (159,050)</u>	<u>\$ 4,034,078</u>

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

Several revenue sources fund governmental activities with property taxes and State foundation revenues being the largest contributors. Property tax levies generated over \$27.1 million in 2004. General revenues from grants and entitlements, such as the school foundation program, generated approximately \$19.3 million. With the combination of taxes and intergovernmental funding 91.2 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction and interest and fiscal charges comprise 57.0 percent and .58 percent, respectively, of governmental program expenses. Interest expense was attributed to repayment of outstanding bonds and notes.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements for fiscal year 2004.

Table 3
Governmental Activities

	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2004</i>	<i>Total Cost of Services 2003</i>	<i>Net Cost of Services 2003</i>
Program Expenses				
<i>Instruction:</i>				
<i>Regular</i>	\$ 23,103,681	\$ (22,184,990)	\$ 21,278,031	\$ (20,681,179)
<i>Special</i>	3,835,287	(3,425,426)	3,592,459	(2,915,715)
<i>Vocational</i>	1,297,268	(1,248,181)	1,254,799	(1,193,648)
<i>Adult/continuing</i>	250	344	989	(395)
<i>Other</i>	936,811	(936,811)	1,048,792	(1,048,792)
<i>Support services:</i>				
<i>Pupils</i>	2,776,546	(2,482,856)	2,657,613	(2,342,062)
<i>Instructional staff</i>	2,650,470	(2,560,431)	2,269,340	(2,222,193)
<i>Board of education</i>	269,601	(263,519)	331,060	(325,333)
<i>Administration</i>	2,945,966	(2,759,851)	2,628,576	(2,488,371)
<i>Fiscal</i>	1,014,760	(1,012,084)	841,874	(841,874)
<i>Business</i>	488,385	(488,385)	378,808	(378,808)
<i>Operation and maintenance of plant</i>	4,880,797	(4,880,797)	3,816,579	(3,816,579)
<i>Pupil transportation</i>	2,894,856	(2,877,418)	2,462,800	(2,382,066)
<i>Central</i>	584,798	(557,798)	464,589	(436,589)
<i>Operation of non-instructional services:</i>				
<i>Food service operations</i>	1,444,664	(198,828)	1,275,325	(107,638)
<i>Community services</i>	501,115	(4,319)	458,227	2,908
<i>Other</i>	50	(50)	1,239	(1,239)
<i>Extracurricular activities</i>	1,214,993	(792,851)	948,190	(697,295)
<i>Interest and fiscal charges</i>	298,510	(298,510)	499,049	(499,049)
<i>Total expenses</i>	<u>\$ 51,138,808</u>	<u>\$ (46,972,761)</u>	<u>\$ 46,208,339</u>	<u>\$ (42,375,917)</u>

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$51,206,151 and total expenditures were \$52,788,566. The net change in fund balance for the general fund and the remaining governmental funds fund was a decrease of approximately 9 percent. This change was not the result of any significant transaction but the overall increase in expenditures.

General Fund Budgeting Highlights

The School 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 fiscal year 2004, the School District amended its general fund budget; however this amendment was not significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$47,221,910, which was somewhat higher than the original budget estimate of \$43,059,181. Much of this \$4,161,729 difference was due to the increase for property taxes and grant awards which were estimated conservatively during the original budgeting process. The estimate for grants must be adjusted during the year as the grant awards are finalized. Also, adjustments are made to the property tax estimate as amounts for Homestead and Rollback exemptions become known. Later in the fiscal year, when this amount is known, adjustments are made to property tax and intergovernmental estimates.

The original expenditures estimate of \$46,618,210 was revised during the fiscal year. The final estimate for expenditures and encumbrances, however, was only \$46,617,652, a difference of \$558 or less than 1 percent of the amount originally anticipated.

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$16,585,347 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
<i>Land</i>	\$ 563,915	\$ 563,915
<i>Land improvements</i>	911,288	1,029,337
<i>Buildings and improvements</i>	12,742,746	13,369,991
<i>Furniture, fixtures and equipment</i>	1,142,721	1,334,209
<i>Vehicles</i>	1,224,677	1,249,053
<i>Total capital assets</i>	<u>\$ 16,585,347</u>	<u>\$ 17,546,505</u>

The School District had capital asset acquisitions during the fiscal year of \$434,633, which was primarily made up of additions to furniture, fixtures and equipment. The decrease from 2003 is attributed to depreciation of capital assets. See Note 7 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2004 the School District had \$4,969,000 in bonds and notes outstanding with \$2,059,000 due within one year. This balance reflected a reduction of \$1,463,000 from the previous year's balance of \$6,432,000. Table 5 summarizes the debt outstanding:

Table 5
Outstanding Debt at Fiscal Year End

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
<i>General obligation bonds</i>	\$ 3,910,000	\$ 4,890,000
<i>Energy conservation notes</i>	1,059,000	1,542,000
<i>Total outstanding</i>	<u>\$ 4,969,000</u>	<u>\$ 6,432,000</u>

See Note 13 to the basic financial statements for the repayment schedules of the bonded debt and notes.

The bonds and notes are to be repaid from the bond retirement debt service fund and a portion from the general fund. The School District has budgeted to meet all of the School District's debt requirements.

Stow-Munroe Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. The School District relies heavily on its property taxpayers to support its operations.

A challenge facing the School District is the future of State funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The School District is unable to determine what effect, if any, this decision will have on future funding from the State. See Note 18 to the basic financial statements for more on this contingent matter.

The legislature passed a new bill for fiscal year 2004 and fiscal year 2005, which was signed by the Governor. This legislation, H.B 95, reduced previously legislated increases in Basic Aid and Parity Aid. It also includes phasing-out Tangible Personal Property Taxes and the "\$10,000 exemption" payments to local governments, including schools.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions or need additional financial information, contact Ryan Ghizzoni, Treasurer, at Stow-Munroe Falls City School District, 4350 Allen Road, Stow Ohio, 44224.

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Stow-Munroe Falls City School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 9,279,705
Inventory held for resale	6,973
Materials and supplies inventory	18,314
Receivables:	
Accounts	59,315
Intergovernmental	238,272
Accrued interest	10,604
Taxes	29,057,406
Due from agency fund	150
Capital assets:	
Land	563,915
Depreciable capital assets, net	16,021,432
Total capital assets	<u>16,585,347</u>
Total assets	<u>55,256,086</u>
 <u>Liabilities:</u>	
Accounts payable	507,592
Accrued wages	3,667,687
Matured compensated absences payable	405,366
Intergovernmental payable	1,286,338
Accrued interest payable	32,883
Deferred revenue	27,715,383
Long-term liabilities:	
Due within one year	2,593,327
Due in more than one year	5,686,599
Total liabilities	<u>41,895,175</u>
 <u>Net assets:</u>	
Invested in capital assets, net of related debt	13,566,347
Restricted for:	
Capital projects	295,688
Debt service	302,931
Other purposes	499,298
Unrestricted	<u>(1,303,353)</u>
Total net assets	<u>\$ 13,360,911</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenues and Changes in Net Assets
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 23,103,681	\$ 317,194	\$ 601,497	\$ -	\$ (22,184,990)
Special	3,835,287	52,079	357,782	-	(3,425,426)
Vocational	1,297,268	30,588	18,499	-	(1,248,181)
Adult/continuing	250	594	-	-	344
Other	936,811	-	-	-	(936,811)
Support services:					
Pupils	2,776,546	173,344	120,346	-	(2,482,856)
Instructional staff	2,650,470	15,606	74,433	-	(2,560,431)
Board of education	269,601	1,475	4,607	-	(263,519)
Administration	2,945,966	-	186,115	-	(2,759,851)
Fiscal	1,014,760	2,676	-	-	(1,012,084)
Business	488,385	-	-	-	(488,385)
Operation and maintenance of plant	4,880,797	-	-	-	(4,880,797)
Pupil transportation	2,894,856	-	-	17,438	(2,877,418)
Central	584,798	-	27,000	-	(557,798)
Operation of non-instructional services:					
Food service operations	1,444,664	1,002,911	242,925	-	(198,828)
Community services	501,115	-	496,796	-	(4,319)
Other	50	-	-	-	(50)
Extracurricular activities	1,214,993	411,133	11,009	-	(792,851)
Interest and fiscal charges	298,510	-	-	-	(298,510)
Total governmental activities	<u>\$ 51,138,808</u>	<u>\$ 2,007,600</u>	<u>\$ 2,141,009</u>	<u>\$ 17,438</u>	<u>(46,972,761)</u>

General Revenues:

Property taxes levied for:

General purposes	26,143,723
Debt service	1,025,310
Grants and entitlements not restricted to specific programs	19,347,434
Investment earnings	115,986
Miscellaneous	181,258

Total general revenues 46,813,711

Change in net assets (159,050)

Net assets beginning of year 13,519,961

Net assets end of year \$ 13,360,911

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 7,745,631	\$ 1,534,074	\$ 9,279,705
Inventory held for resale	-	6,973	6,973
Materials and supplies inventory	15,162	3,152	18,314
<u>Receivables:</u>			
Accounts	49,612	9,703	59,315
Intergovernmental	-	238,272	238,272
Accrued interest	10,604	-	10,604
Interfund	231,914	-	231,914
Taxes	27,934,947	1,122,459	29,057,406
Total assets	<u>\$ 35,987,870</u>	<u>\$ 2,914,633</u>	<u>\$ 38,902,503</u>
<u>Liabilities and fund balances:</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 413,487	\$ 94,105	\$ 507,592
Accrued wages	3,570,866	96,821	3,667,687
Matured compensated absences payable	405,366	-	405,366
Interfund payable	-	231,764	231,764
Intergovernmental payable	825,338	30,393	855,731
Deferred revenue	27,083,480	1,090,847	28,174,327
Total liabilities	<u>32,298,537</u>	<u>1,543,930</u>	<u>33,842,467</u>
<u>Fund balances:</u>			
Reserved for encumbrances	990,636	109,833	1,100,469
Reserved for unclaimed monies	7,335	-	7,335
Unreserved,			
Undesignated, reported in:			
General fund	2,691,362	-	2,691,362
Special revenue funds	-	460,608	460,608
Debt service fund	-	505,149	505,149
Capital projects funds	-	295,113	295,113
Total fund balances	<u>3,689,333</u>	<u>1,370,703</u>	<u>5,060,036</u>
Total liabilities and fund balances	<u>\$ 35,987,870</u>	<u>\$ 2,914,633</u>	<u>\$ 38,902,503</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total governmental fund balances		\$ 5,060,036
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.		16,585,347
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	<u>\$ 458,944</u>	458,944
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.		(430,607)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds and notes	\$ (4,969,000)	
Compensated absences	(3,310,926)	
Accrued interest payable	(32,883)	
Total	<u>(8,312,809)</u>	<u>(8,312,809)</u>
Net assets of governmental activities		<u>\$ 13,360,911</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property taxes	\$ 26,027,381	\$ 1,021,498	\$ 27,048,879
Intergovernmental	19,230,140	2,322,234	21,552,374
Interest	110,664	7,728	118,392
Tuition and fees	474,816	156,300	631,116
Extracurricular activities	57,061	414,367	471,428
Gifts and donations	10,297	31,904	42,201
Customer services	2,679	1,003,508	1,006,187
Rent	16,668	34,100	50,768
Miscellaneous	124,792	160,014	284,806
Total revenues	<u>46,054,498</u>	<u>5,151,653</u>	<u>51,206,151</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	21,350,990	944,979	22,295,969
Special	3,457,742	347,574	3,805,316
Vocational	1,257,404	37,979	1,295,383
Adult/continuing	250	-	250
Other	936,811	-	936,811
Support services:			
Pupils	2,446,545	292,269	2,738,814
Instructional staff	2,523,028	109,250	2,632,278
Board of education	297,712	5,303	303,015
Administration	2,713,701	178,924	2,892,625
Fiscal	995,106	21,684	1,016,790
Business	509,438	-	509,438
Operation and maintenance of plant	4,554,480	50,566	4,605,046
Pupil transportation	2,871,125	1,000	2,872,125
Central	535,527	32,798	568,325
Operation of non-instructional services:			
Food service operations	13,010	1,370,222	1,383,232
Community services	1,375	499,318	500,693
Other	-	50	50
Extracurricular activities	753,270	383,172	1,136,442
Capital outlay	434,633	-	434,633
Debt service:			
Principal retirement	538,000	1,984,000	2,522,000
Interest and fiscal charges	41,092	298,239	339,331
Total expenditures	<u>46,231,239</u>	<u>6,557,327</u>	<u>52,788,566</u>
Excess of revenues over (under) expenditures	<u>(176,741)</u>	<u>(1,405,674)</u>	<u>(1,582,415)</u>
<u>Other financing sources (uses):</u>			
Proceeds of notes	-	1,059,000	1,059,000
Transfers in	5	202,295	202,300
Transfers out	(202,156)	(144)	(202,300)
Total other financing sources (uses)	<u>(202,151)</u>	<u>1,261,151</u>	<u>1,059,000</u>
Net change in fund balances	(378,892)	(144,523)	(523,415)
Fund balances at beginning of year	4,068,225	1,515,226	5,583,451
Fund balances at end of year	<u>\$ 3,689,333</u>	<u>\$ 1,370,703</u>	<u>\$ 5,060,036</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
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	\$ (523,415)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital asset additions	\$ 434,633
Depreciation expense	<u>(1,200,040)</u>
Excess of depreciation expense over capital outlay	(765,407)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(195,751)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:	
Property taxes	\$ 120,149
Intergovernmental	(80,801)
Charges for services	<u>(265,741)</u>
Net change in deferred revenues during the year	(226,393)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	2,522,000
Proceeds of notes provide current financial resources and are reported as a financing source in the governmental funds but are not reported as a financing source in the statement of activities.	
	(1,059,000)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in compensated absences	\$ 61,603
Increase in pension obligation	(13,508)
Decrease in accrued interest	<u>40,821</u>
Total additional expenditures	<u>88,916</u>
Change in net assets of governmental activities	<u>\$ (159,050)</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual - General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Taxes	\$ 24,547,105	\$ 27,293,258	\$ 27,293,258	\$ -
Intergovernmental	17,859,400	19,229,768	19,229,768	-
Interest	96,619	96,619	96,619	-
Tuition and fees	474,741	474,741	474,741	-
Rent	16,668	16,668	16,668	-
Extracurricular activities	12,691	58,899	58,899	-
Gifts and donations	6,297	6,297	6,297	-
Customer services	2,664	2,664	2,664	-
Miscellaneous	42,996	42,996	42,996	-
Total revenues	<u>43,059,181</u>	<u>47,221,910</u>	<u>47,221,910</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	22,342,705	21,407,975	21,407,975	-
Special	3,586,510	3,447,813	3,447,813	-
Vocational	1,301,397	1,256,981	1,256,981	-
Adult/continuing	509	550	550	-
Other	683,687	963,166	963,166	-
Support services:				
Pupils	2,500,670	2,431,397	2,431,397	-
Instructional staff	2,287,424	2,477,509	2,477,509	-
Board of education	351,218	311,642	311,642	-
Administration	2,708,994	2,633,009	2,633,009	-
Fiscal	913,380	991,119	991,119	-
Business	526,873	486,424	486,424	-
Operation and maintenance of plant	4,370,567	4,656,351	4,656,351	-
Pupil transportation	2,478,586	2,891,615	2,891,615	-
Central	474,252	1,171,123	1,171,123	-
Operation of non-instructional services	-	14,414	14,414	-
Extracurricular activities	686,862	757,754	757,754	-
Capital outlay	824,026	139,718	139,718	-
Debt service:				
Principal retirement	538,000	538,000	538,000	-
Interest and fiscal charges	42,550	41,092	41,092	-
Total expenditures	<u>46,618,210</u>	<u>46,617,652</u>	<u>46,617,652</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(3,559,029)</u>	<u>604,258</u>	<u>604,258</u>	<u>-</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	-	16,035	16,035	-
Refund of prior year expenditures	-	58,125	58,125	-
Advances in	-	151,646	151,646	-
Advances out	(30,000)	(214,736)	(214,736)	-
Transfers in	-	5	5	-
Transfers out	(30,176)	(202,156)	(202,156)	-
Total other financing sources (uses)	<u>(60,176)</u>	<u>(191,081)</u>	<u>(191,081)</u>	<u>-</u>
Net change in fund balance	(3,619,205)	413,177	413,177	-
Fund balance at beginning of year	5,590,342	5,590,342	5,590,342	-
Prior year encumbrances appropriated	409,582	409,582	409,582	-
Fund balance at end of year	<u>\$ 2,380,719</u>	<u>\$ 6,413,101</u>	<u>\$ 6,413,101</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarships	Agency
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 60,665	\$ 123,265
Accounts receivable	1,600	1,958
Total assets	<u>\$ 62,265</u>	<u>\$ 125,223</u>
<u>Liabilities:</u>		
Accounts payable	\$ 3,100	\$ 2,510
Due to general fund	-	150
Intergovernmental payable	-	251
Due to students	-	122,312
Total liabilities	<u>3,100</u>	<u>\$ 125,223</u>
<u>Net assets:</u>		
Held in trust for scholarships	<u>\$ 59,165</u>	

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

	<u>Scholarships</u>
<u>Additions:</u>	
Interest	\$ 1,192
Gifts and donations	39,576
Total additions	<u>40,768</u>
 <u>Deductions:</u>	
Payments in accordance with trust agreements	<u>18,186</u>
Change in net assets	22,582
Net assets beginning of year	36,583
Net assets end of year	<u>\$ 59,165</u>

See accompanying notes to the basic financial statements.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Stow-Munroe Falls City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Board of Education controls the School District's nine instructional/support facilities staffed by 316 classified and 393 certificated full time teaching personnel who provide services to 5,717 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Stow-Munroe Falls City School District, this includes general operations, food service, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) the School 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 School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. The School District has no component units.

Within the School District boundaries are three non-public schools. Holy Family School which is operated through the Cleveland Diocese, the Cornerstone Community School which is operated by the Cornerstone Community School Board of Trustee's and the Kids Country Preschool which is operated by Kids Country, Inc. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the Treasurer of the Stow-Munroe Falls City School District, as directed by the non-public school. This activity is reflected in a special revenue fund for financial reporting purposes.

The School District is associated with the Northeast Ohio Network for Educational Technology, the Ohio Schools Council of Governments and the Six District Educational Compact, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 15.

Within the boundaries of the Stow-Munroe Falls City School District operates the Stow-Munroe Falls Public Library, a related organization. Information regarding this organization is presented in Note 16.

The School District is also associated with the Stark County Schools Council of Government Health Benefit program, a public entity risk pool. Information regarding this risk pool is presented in Note 17.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the 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 and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories; governmental and fiduciary.

Governmental Funds:

Governmental funds focus 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 general fund is the only major fund of the School District:

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

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

Fiduciary Fund Types:

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust funds are private purpose trusts, which primarily account for memorial and scholarship programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund consists of student managed activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Private purpose trust funds are reported using the economic resources measurement focus.

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. The private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) 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.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Expenditures/Expenses

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 on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as, "Equity in pooled cash and cash equivalents" on the basic financial statements. During the current fiscal year investments were limited to overnight repurchase agreements, certificates of deposits and federal backed securities. All investments of the School District had a maturity of two years or less.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market price. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

G. Inventory

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

Inventories of the general fund and food service special revenue fund are stated at cost, which is determined on a first-in, first-out basis. Inventory in the general fund consist of expendable supplies held for consumption. Inventories of the food service fund consist of donated food, purchased food, and supplies held for resale. Inventories reported on the fund financial statements are expended when used.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation.

I. Capital Assets

General capital assets are those assets resulting 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. It is the policy of the School District to not capitalize interest costs incurred as part of construction.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<i><u>Description</u></i>	<i><u>Estimated Lives</u></i>
<i>Land improvements</i>	<i>5 - 20 years</i>
<i>Buildings and improvements</i>	<i>30 - 50 years</i>
<i>Furniture, fixtures and equipment</i>	<i>5 - 20 years</i>
<i>Vehicles</i>	<i>5 - 20 years</i>

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

J. Interfund Balances

On the 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 of the statement of net assets, except for the agency fund.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the spent 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 School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

N. Fund Balance Reserves

The School District reserves those portions of fund balance 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 the fund balance that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and unclaimed monies.

O. Interfund Transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statements of net assets.

P. Estimates

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Net Change in Fund Balance

	<u>General</u>
<i>GAAP Basis</i>	\$ (378,892)
<i>Revenue Accruals</i>	1,393,218
<i>Expenditure Accruals</i>	727,277
<i>Encumbrances (Budget Basis)</i>	
<i>Outstanding at year end</i>	<u>(1,328,426)</u>
<i>Budget Basis</i>	<u>\$ 413,177</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim moneys may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

At fiscal year end the carrying amount of the School District's deposits and petty cash totaled \$7,012,670 and the bank balances of the deposits totaled \$7,834,408. Of the bank balance, \$106,726 was covered by federal depository insurance. \$7,277,682 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

B. Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the School District or its agent in the School District's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

All interest is legally required to be placed in the general fund, the food service and auxiliary services special revenue funds, the permanent improvements capital projects fund, and the scholarships private purpose trust fund. Due to these provisions, the general fund received \$110,664, of which \$11,399 was assigned from other School District funds.

	<u>Category 3</u>	<u>Fair Value</u>
<i>Repurchase Agreements</i>	\$ 455,000	\$ 455,000
<i>Federal Backed Securities</i>	1,995,965	<u>1,995,965</u>
<i>Total Investments</i>		<u>\$ 2,450,965</u>

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at varying percentages of true value and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

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 earlier or later payment dates to be established.

Tangible personal property taxes paid 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.

The School District receives property taxes from Summit and Portage Counties. The County Fiscal Officer of Summit County and the County Auditor of Portage County periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by year-end are available to finance current fiscal year operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$851,467 in the general fund, and \$31,612 in the bond retirement debt service fund. These advances are recognized as revenue on the fund financial statements.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2002 Assessed Value</u>	<u>2003 Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 637,000,660	\$ 651,221,110
Commercial and Industrial	162,902,980	164,962,100
Public Utilities	21,570	22,840
 <u>Tangible Personal Property</u>		
General	60,365,970	56,950,308
Public Utilities	<u>13,556,590</u>	<u>12,819,450</u>
Total	<u>\$ 873,847,770</u>	<u>\$ 885,975,808</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, intergovernmental grants and entitlements, and accrued interest. 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 intergovernmental receivables follows:

<u>Governmental activities</u>	<u>Amount</u>
<u>Special revenue funds:</u>	
IDEA grant	\$ 57,952
Title I	127,518
Title V	21,383
Food service	25,021
Miscellaneous federal grants	<u>6,398</u>
Total intergovernmental receivable	<u>\$ 238,272</u>

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 7 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 563,915	\$ -	\$ -	\$ 563,915
<i>Capital assets, being depreciated:</i>				
Land improvements	2,645,453	-	-	2,645,453
Buildings and improvements	28,742,068	107,699	-	28,849,767
Furniture, fixtures and equipment	3,789,429	181,674	(440,992)	3,530,111
Vehicles	3,206,006	145,260	-	3,351,266
Total capital assets, being depreciated	<u>38,382,956</u>	<u>434,633</u>	<u>(440,992)</u>	<u>38,376,597</u>
<i>Less: Accumulated depreciation</i>				
Land improvements	(1,616,116)	(118,049)	-	(1,734,165)
Buildings and improvements	(15,372,077)	(734,944)	-	(16,107,021)
Furniture, fixtures and equipment	(2,455,220)	(177,411)	245,241	(2,387,390)
Vehicles	(1,956,953)	(169,636)	-	(2,126,589)
Total accumulated depreciation	<u>(21,400,366)</u>	<u>(1,200,040)</u>	<u>245,241</u>	<u>(22,355,165)</u>
Total capital assets being depreciated, net	<u>16,982,590</u>	<u>(765,407)</u>	<u>(195,751)</u>	<u>16,021,432</u>
Governmental activities capital assets, net	<u>\$ 17,546,505</u>	<u>\$ (765,407)</u>	<u>\$ (195,751)</u>	<u>\$ 16,585,347</u>

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 679,486
<i>Special</i>	1,295
<i>Support services:</i>	
<i>Pupils</i>	7,627
<i>Instructional staff</i>	2,743
<i>Administration</i>	60,140
<i>Fiscal</i>	1,987
<i>Operation and maintenance of plant</i>	276,378
<i>Pupil transportation</i>	20,161
<i>Operation of non-instructional services:</i>	
<i>Food service operations</i>	73,028
<i>Extracurricular activities</i>	77,195
<i>Total depreciation expense</i>	<u>\$ 1,200,040</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2004 consisted of the following:

	<u>Interfund</u> <u>Receivable</u>	<u>Interfund</u> <u>Payable</u>
<i>General fund</i>	\$ 231,914	\$ -
<i>Nonmajor governmental funds</i>	-	231,764
<i>Agency funds</i>	-	150
	<u>\$ 231,914</u>	<u>\$ 231,914</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund loans outstanding are anticipated to be repaid in fiscal year 2005.

NOTE 9 - INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Interfund transfers for the year ended June 30, 2004, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Funds</u>	
<i>General fund</i>	\$ -	\$ 5	\$ 5
<i>Nonmajor funds</i>	<u>202,156</u>	<u>139</u>	<u>202,295</u>
<i>Total</i>	<u>\$ 202,156</u>	<u>\$ 144</u>	<u>\$ 202,300</u>

During the fiscal year, the general fund made numerous transfers to several special revenue funds to help support program activities and to fund grant programs until awards were received.

NOTE 10 - RISK MANAGEMENT

The School 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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District has contracted with Stark County Schools Council of Government (the "Consortium") to provide medical/surgical, dental, life insurance and accidental death and dismemberment insurance for its employees and their covered dependents. The Consortium is a shared risk pool comprised of forty-two members. The members pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating entities and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$250,000 per participant and an aggregate stop-loss provision of \$69,159,978.

Premium contributions are determined annually based on the claims experience of the individual member. Premiums can be increased or decreased by up to 20% of the prior year's contribution. Members may become liable for additional contributions to fund the liability of the pool. In the event of termination, all participating members claims would be paid without regard to their individual account balances. The Consortium's Board of Directors has authority to return monies to an exiting member subsequent to the settlement of all claims and expenses.

The Consortium reported the following summary of actuarially measured liabilities and assets available to pay these liabilities as of June 30.

	<u>2004</u>	<u>2003</u>
<i>Cash and investments</i>	\$ 11,306,366	\$ 16,143,143
<i>Actuarial liabilities</i>	6,841,000	5,089,000

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

The School District is a member of the OSBA Workers' Compensation Group Rating Program established in April 1991. The program was created by the Ohio School Boards Association as a result of the Worker's Compensation group rating plan as defined in Section 4123.29 of the Ohio Revised Code. The group-rating program allows school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained from the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2003, 8.17% was 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$622,239, \$617,526, and \$328,522, respectively; 44% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004, in the amount of \$383,294, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement, disability, annual cost-of-living adjustments, death, and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004 plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,808,936, \$2,827,129, and \$1,960,524, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$467,469, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2004 were \$8,441 made by the School District and \$27,892 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$216,072 during the 2004 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by the STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$447,265, which includes a surcharge of \$111,160 during the 2004 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the SERS's net assets available for payment of health care benefits was \$300.8 million, at cost. The number of participants receiving health care benefits was approximately 62,000.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during the fiscal year were as follows:

	<i>Balance at</i> <i>June 30, 2003</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance at</i> <i>June 30, 2004</i>	<i>Due In</i> <i>One Year</i>
<i>Governmental Activities</i>					
<i>Bond Anticipation Notes</i>					
<i>Energy Conservation, 5.0%</i>	\$ 1,542,000	\$ -	\$ (1,542,000)	\$ -	\$ -
<i>Energy Conservation, 5.0%</i>	<u>-</u>	<u>1,059,000</u>	<u>-</u>	<u>1,059,000</u>	<u>1,059,000</u>
<i>Total Bond Anticipation Notes</i>	<u>1,542,000</u>	<u>1,059,000</u>	<u>(1,542,000)</u>	<u>1,059,000</u>	<u>1,059,000</u>
 <i>General Obligation Bonds</i>					
<i>1985 School Building, 9.125%</i>	2,360,000	-	(590,000)	1,770,000	590,000
<i>1996 Public Library, 5.33%</i>	2,285,000	-	(335,000)	1,950,000	350,000
<i>1996 Allen Rd., 5.16%</i>	<u>245,000</u>	<u>-</u>	<u>(55,000)</u>	<u>190,000</u>	<u>60,000</u>
<i>Total General Obligation Bonds</i>	<u>4,890,000</u>	<u>-</u>	<u>(980,000)</u>	<u>3,910,000</u>	<u>1,000,000</u>
 <i>Other liabilities</i>					
<i>Compensated absences</i>	<u>3,372,529</u>	<u>619,417</u>	<u>(681,020)</u>	<u>3,310,926</u>	<u>534,327</u>
<i>Total other liabilities</i>	<u>3,372,529</u>	<u>619,417</u>	<u>(681,020)</u>	<u>3,310,926</u>	<u>534,327</u>
 <i>Governmental activities</i>					
<i>long-term liabilities</i>	<u>\$ 9,804,529</u>	<u>\$ 1,678,417</u>	<u>\$ (3,203,020)</u>	<u>\$ 8,279,926</u>	<u>\$ 2,593,327</u>

In December 2001, the School District issued \$2,460,000 of Series 2001A Energy Conservation Improvements Notes in anticipation of the issuance of bonds for the purpose of paying costs of installations, modifications and remodeling of school buildings to conserve energy. These notes matured in December 2002, which subsequently the School District has continued to “roll over” the outstanding principal amount. During the year, the School District issued \$1,059,000 Series 2003 Energy Conservation Improvements Notes, maturing in December 2004. It is the intent of the School District to continue to roll over the outstanding principal amount of these Notes in anticipation of issuing bonds. These Notes are reported as long-term liabilities on the statement of net assets due to the “rolling over” of the outstanding principal amount into new notes with a maturity date of more than twelve months subsequent to the end of the fiscal year. When available, the School District will pay down the principal amount with general fund resources.

In fiscal year of 1986 and 1997, the School District issued \$11,800,000 and \$3,952,000 of general obligation bonds. These bonds were issued for the financing of improvements to the School District’s High School and public library buildings. These bonds, maturing on December 1, 2006 and 2008 respectively, will be retired with voted property tax levies recorded in the bond retirement debt service fund. Also in fiscal year 1997, the School District issued an additional \$530,000 in general obligation bonds for the purchase of an administration building. These bonds are scheduled to mature on December 1, 2006 with payments made from general fund resources.

Compensated absences will be paid from the fund from which the person is paid. In prior years this has primarily been the general fund.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

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

<i>Fiscal Year Ending</i>	<i>Bond Anticipation Notes</i>		<i>General Obligation Bonds</i>		<i>Total</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2005	\$ 1,059,000	\$ 18,219	\$ 1,000,000	\$ 235,799	\$ 2,059,000	\$ 254,018
2006	-	-	1,025,000	160,556	1,025,000	160,556
2007	-	-	1,045,000	83,731	1,045,000	83,731
2008	-	-	410,000	34,085	410,000	34,085
2009	-	-	430,000	11,610	430,000	11,610
<i>Total</i>	<u>\$ 1,059,000</u>	<u>\$ 18,219</u>	<u>\$ 3,910,000</u>	<u>\$ 525,781</u>	<u>\$ 4,969,000</u>	<u>\$ 544,000</u>

NOTE 14 – CONTRACTUAL COMMITMENTS

The School District had an energy conservation improvement project, a computer purchase agreement, a copier replacement lease, and various other commitments at June 30, 2004. These obligations are evidenced by contractual commitments with contractors and vendors, and include:

<i>Project</i>	<i>Spent-to date</i>	<i>Commitment Remaining</i>
<i>Energy conservation</i>	\$ -	\$ 1,723,717
<i>Computer purchase</i>	-	885,793
<i>Copier lease</i>	72,963	512,537
<i>Various others</i>	62,010	235,641
<i>Totals</i>	<u>\$ 134,973</u>	<u>\$ 3,357,688</u>

The energy conservation project is a commitment of the School District's building capital improvement fund. The energy conservation project is being funded from the proceeds of energy conservation notes.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Northeast Ohio Network for Educational Technology (NEOnet)

Northeast Ohio Network for Educational Technology (NEOnet) is the computer service organization or Data Acquisition Site (DAS) used by the School District. NEOnet is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges, and assessments as charged. NEOnet is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOnet are made from the general fund. During fiscal year 2004, the School District contributed \$96,318 to NEOnet. Financial information can be obtained by contacting the Treasurer at the Summit County Educational Service Center, who serves as the fiscal agent, at 420 Washington Ave., Suite 200, Cuyahoga Falls, Ohio 44221.

B. Six District Educational Compact

The Six District Educational Compact is a jointly governed organization to provide for the vocational and special education needs of the students of six participating school districts. The six member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district that offered the class. Cuyahoga Falls City School District and Hudson City School District serve as the fiscal agents for this agreement, collecting and distributing payments. All revenues are generated from charges for services. The Six District Educational Compact did not receive any funding from the School District for services during fiscal year 2004.

C. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the School District paid \$340,522 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts commit to participate for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimates are compared to their actual usage and any necessary adjustments are made.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

NOTE 16 - RELATED ORGANIZATION

The Stow-Munroe Falls Public Library is a related organization to the School District. The School District's Board of Education is responsible for appointing all the trustees of the Stow-Munroe Falls Public Library; however, the School District's Board of Education cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the School District. Although the School District serves as the taxing authority and may issue tax related debt on behalf of the Library, including the determination of the rate and duration, Stow-Munroe Falls City School District must place the levy on the ballot. The Library may issue debt and determines its own budget. The Library did not receive any funding from the School District during the fiscal year 2004; however, the School District continues to service debt issued on behalf of the Library (See Note 13).

NOTE 17 - PUBLIC ENTITY RISK POOL

The Stark County Schools Council of Government Health Benefits Program is a shared risk pool, with participants from Stark, Summit, and Portage Counties and provides medical/surgical, dental, life insurance and dismemberment insurance. The consortium is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly elects officers for two year terms to serve as the Board of Directors. The assembly exercise control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to Stark County Educational Service Center, 2100 38th Street, Canton, Ohio 44709.

NOTE 18 - CONTINGENCIES

A. Grants

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

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

B. Litigation

The School District is party to various legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claim or lawsuit will not have material adverse effect, if any, on the financial condition of the School District.

C. School Funding

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

NOTE 19 - STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years. Prior years reserve amounts were restated to include qualifying disbursements which were erroneously excluded. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Improvements Reserve</i>	<i>Total</i>
<i>Set-aside cash balance</i>			
<i>as of June 30, 2003 (restated)</i>	\$ 278,671	\$ 111,055	\$ 389,726
<i>Current year set-aside requirement</i>	847,461	847,461	1,694,922
<i>Qualifying disbursements</i>	<u>(1,144,327)</u>	<u>(1,248,375)</u>	<u>(2,392,702)</u>
<i>Total</i>	<u>\$ (18,195)</u>	<u>\$ (289,859)</u>	<u>(308,054)</u>
<i>Balance carried forward</i>	<u>\$ (18,195)</u>	<u>\$ -</u>	<u>\$ (18,195)</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials and capital improvements set-aside amounts below zero. This extra amount may be used to reduce the set-aside requirement of future fiscal years for the textbooks and instructional materials set-aside. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

Stow-Munroe Falls City School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

NOTE 20 - FUND DEFICITS

As of June 30, 2004, several funds had deficit fund balances. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The following funds had deficit balances as follows:

<i>Fund</i>	<i>Amount</i>
<i>Special Revenue:</i>	
<i>Food service</i>	\$ 57,492
<i>Athletics</i>	4,345
<i>Student intervention</i>	570
<i>Vocational education</i>	1,704
<i>Title III</i>	11,014
<i>IDEA grant</i>	943

NOTE 21 – SUBSEQUENT EVENTS

In July of 2004, the School District issued energy conservation improvement notes in the amount of \$1,730,000.

In December 2004, the School District combined the 2003 and 2004 Series Energy Conservation notes. In doing so, \$769,000 of the Series 2003 note was repaid resulting in a new note of \$2,020,000.

Subsequent to fiscal year end the Board adopted and 35 employees accepted an early severance incentive package (the Plan). The cost of the Plan is estimated to be \$2.4 million which will be paid over the next four years.

**STOW-MUNROE FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$ 68,484		\$ 68,484
National School Lunch Program	LL-P4-2003 LL-P4-2004	10.555	\$ 48,751 123,600		\$ 48,751 123,600	
Total National School Lunch Program			172,351		172,351	
Total U.S. Department of Agriculture - Child Nutrition Cluster			172,351	68,484	172,351	68,484
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	6B-SF-2002 6B-SF-2004	84.027	55,844 604,346		33,313 564,548	
Total Special Education - Grants to States			660,190		597,861	
Special Education - Preschool Grants	PG-D7-2003 PG-S1-2003 PG-S1-2004	84.173	3,600 2,670 15,757		3,579 1,097 15,661	
Total Special Education - Preschool Grants			22,027		20,337	
Total Special Education Cluster			682,217		618,198	
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	151,401		178,777	
Innovative Education Program Strategies	C2-S1-2003 C2-S1-2004	84.298	5,346 36,903		15,956 44,756	
Total Innovative Education Program Strategies			42,249		60,712	
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-2004	84.186	19,092		16,344	
Technology Literacy Challenge Fund Grants	TJ-S1-2004	84.318	1,537		1,516	
Improving Teacher Quality State Grants	CR-S1-2002 TR-S1-2003 TR-S1-2004	84.367	18,838 18,599 161,567		22,176 159,038	
Total Improving Teacher Quality State Grants			199,004		181,214	
<i>Passed through Six District Vocational Education Compact:</i>						
Vocational Education - Basic Grants to States	N/A	84.048	35,575		71,904	
<i>Passed through Twinsburg City School District:</i>						
English Language Acquisition Grants	N/A	84.365	11,014		11,014	
Total U.S. Department of Education			1,142,089		1,139,679	
Totals			<u>\$ 1,314,440</u>	<u>\$ 68,484</u>	<u>\$ 1,312,030</u>	<u>\$ 68,484</u>

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

**STOW-MUNROE FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

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

Stow-Munroe Falls City School District
Summit County
4350 Allen Road
Stow, Ohio 44224

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 Stow-Munroe Falls City School District, Summit County, Ohio, (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 March 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 11, 2005.

Internal Control Over Financial Reporting

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

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated March 11, 2005.

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

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

Betty Montgomery
Auditor of State

March 11, 2005



Auditor of State Betty Montgomery

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

Stow-Munroe Falls City School District
Summit County
4350 Allen Road
Stow, Ohio 44224

To the Board of Education:

Compliance

We have audited the compliance of Stow-Munroe Falls City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

We noted instances of noncompliance that did not require inclusion in this report that we have reported to the District's management in a separate letter dated March 11, 2005.

Internal Control Over Compliance

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

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 11, 2005.

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

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

Betty Montgomery
Auditor of State

March 11, 2005

**STOW-MUNROE FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027 Grants to States CFDA # 84.173 Preschool Grants CFDA # 84.010 Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**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

STOW-MUNROE FALLS CITY SCHOOL DISTRICT

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**