



**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
Betty Montgomery**

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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Medina City School District, Medina County, Ohio, (the District) as of and for the year ended June 30, 2002, 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, each major fund and the aggregate remaining fund information of Medina City School District, Medina County, as of June 30, 2002, 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.

As described in Note 4, during the year ended June 30, 2002, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2002 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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Jim Petro
Auditor of State

December 19, 2002

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The discussion and analysis of Medina City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2002. 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 financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2002 are as follows:

- In total, net assets increased by \$7,022,345.
- Revenues for governmental activities totaled \$70,730,627 in 2002. Of this total, 93 percent consisted of General revenues while Program revenues accounted for the remaining 7 percent.
- Program expenses totaled \$63,708,282. Instructional expenses made up 52.9 percent of this total while support services accounted for 33.7 percent. Other expenses rounded out the remaining 13.4 percent.
- Outstanding general obligation bonded debt decreased to \$94,174,100 in 2002 from \$95,275,123.

Using this Annual Financial Report

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain 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 non-major funds presented in total in one column. In the case of Medina City School District, the general fund by far is the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2002?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

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 performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. 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 funds. The School District's major governmental funds are the general fund, bond retirement debt service fund and the building capital improvement fund.

Governmental Funds

Most of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2002 compared to 2001:

	Table I Net Assets	
	Governmental Activities	
	2002	2001
Assets		
Current and Other Assets	\$98,847,418	\$121,871,822
Capital Assets, Net	83,469,845	52,357,290
Total Assets	182,317,263	174,229,112
Liabilities		
Current and Other Liabilities	46,464,238	45,448,256
Long-Term Liabilities:		
Due Within One Year	2,651,669	2,094,369
Due in More than One Year	97,541,611	98,049,087
Total Liabilities	146,657,518	145,591,712
Net Assets		
Invested in Capital Assets, Net of Debt	3,103,616	1,146,298
Restricted		
Capital Projects	11,385,291	8,887,855
Debt Service	3,600,523	2,979,160
Set Asides	229,687	229,687
Other Purpose	1,537,154	1,197,121
Unrestricted	15,803,474	14,197,279
Total Net Assets	\$35,659,745	\$28,637,400

Total assets increased by \$8,088,151. The majority of this increase can be attributed directly to the area of capital assets. More specifically, this increase in assets was derived from the Senior High School expansion currently in progress.

Total liabilities increased by \$1,065,806. The most notable area that increased was deferred revenue. Deferred revenue increased by \$1,436,438 from 2001.

The School District had an significant amount of unspent debt proceeds related to school improvements. GASB 34 states that these unspent monies are included in net assets restricted for capital projects. A majority of the construction was completed in fiscal year 2001. The monies spent to construct and renovate the elementary school and senior high schools are included in capital assets net of related debt.

By comparing assets and liabilities, one can see the overall position of the School District has improved as evidenced by the increase in net assets of \$7,022,345.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$65,769,949 or 93 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$4,960,678 or only 7 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2002. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities 2002
Revenues	
Program Revenues:	
Charges for Services	\$2,512,493
Operating Grants and Contributions	2,448,185
<i>Total Program Revenues</i>	4,960,678
General Revenues:	
Property Taxes	39,942,926
Grants and Entitlements	23,175,644
Investments	2,372,405
Unrestricted Contributions and Donations	20,000
Miscellaneous	258,974
<i>Total General Revenues</i>	65,769,949
Total Revenues	70,730,627
Program Expenses	
Instruction	
Regular	26,732,501
Special	6,248,452
Vocational	752,011
Support Services:	
Pupil	3,111,111
Instructional Staff	3,337,817
Board of Education	63,572
Administration	3,883,649
Fiscal	1,253,851
Business	863,975
Operation and Maintenance	5,646,902
Pupil Transportation	2,939,372
Central	346,088
Operating of Non-Instructional Services	1,825,595
Extracurricular Activities	1,181,801
Interest and Fiscal Charges	5,521,585
Total Program Expenses	63,708,282
Increase in Net Assets	\$7,022,345

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In May 1995, the School District successfully passed an 8.4 mill continuing levy that is currently estimated to generate \$5.7 million per year. Collections began the second half of fiscal year 1996. The full effect of this levy was realized in fiscal year 1997. This additional income has been dedicated to the operational and capital needs of the School District over the last seven years and future years.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As one can see, approximately 52.9 percent of the School Districts budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 33.7 percent. The remaining amount of program expenses, roughly 13.4 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, operation and maintenance, pupil transportation, the food service program and numerous extracurricular activities.

Actual expenses were consistent with annual budget expectations and the School District even realized an increase in net assets in 2002 of \$7,022,345. This increase was primarily due to revenues exceeding expenses. The H. G. Blake Elementary School opened in the fall of 2001. The Medina Senior High School is being expanded with an estimated completion in the fall of 2003.

The Statement of Activities reflects the total net cost of program services. Table 3 reflects the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2002	Net Cost of Services 2002
Instruction		
Regular	\$26,732,501	(\$26,330,670)
Special	6,248,452	(5,536,251)
Vocational	752,011	(513,123)
Support Services:		
Pupil	3,111,111	(2,861,546)
Instructional Staff	3,337,817	(2,998,198)
Board of Education	63,572	(63,572)
Administration	3,883,649	(3,721,558)
Fiscal	1,253,851	(1,253,851)
Business	863,975	(859,959)
Operation and Maintenance	5,646,902	(5,646,902)
Pupil Transportation	2,939,372	(2,938,524)
Central	346,088	(293,325)
Operating of Non-Instructional Services	1,825,595	160,419
Extracurricular Activities	1,181,801	(378,717)
Interest and Fiscal Charges	5,521,585	(5,511,827)
Total	\$63,708,282	(\$58,747,604)

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 62.7 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 36.4 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 7.8 percent of all governmental expenses.

Clearly, the Medina community is by far the greatest source of financial support for the students of the Medina City Schools.

School District's Funds

Information regarding the School District's major funds can be found on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$70,745,097 and expenditures of \$94,808,783. The net change in fund balance for the year was most significant in the building capital projects fund, with a decrease of \$27,987,443. This decrease was due to the school construction project being near completion.

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 fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2002, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$53,402,407; this was above original budget estimates of \$50,216,272. The main difference between the original and final estimates was due to an under estimation of taxes and intergovernmental receipts. The budget basis expenditures estimate totaled \$54,739,542 compared to original estimates of \$55,472,422. This difference was primarily due to changes in staffing costs throughout the year.

The School District's unencumbered ending cash balance totaled \$21,253,414, which was above the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002, the School District had \$83,469,845 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 reflects fiscal 2002 values compared to 2001.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Table 4
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2002	2001
Land	\$3,016,769	\$2,990,167
Land Improvements	963,268	501,334
Buildings and Improvements	31,586,775	29,014,923
Furniture and Equipment	171,634	188,448
Vehicles	2,229,673	1,982,667
Construction in Progress	45,501,726	17,679,751
Totals	\$83,469,845	\$52,357,290

All capital assets, except land, are reported net of depreciation. As one can see, the main increase in capital assets during the fiscal year occurred in the construction in progress category. The increase in construction in progress was primarily due to the senior high school expansion. For more information on capital assets refer to Note 9 of the basic financial statements.

Debt

At June 30, 2002 the School District had \$94,174,100 in bonds outstanding. Table 5 below summarizes the School District's bonds outstanding.

Table 5
 Outstanding Debt, at Year End

	Governmental Activities	
	2002	2001
1992 Various School Improvements	\$4,474,116	\$4,449,977
1998 Refunding Bonds	11,640,414	11,637,564
1999 Various School Improvements	78,059,570	79,187,582
Totals	\$94,174,100	\$95,275,123

The 1992 school improvement bonds were issued to add the A. I. Root Middle School and to upgrade the Ella Canavan Elementary School. This debt will be fully repaid in calendar year 2008.

The 1998 refunding bonds were issued to advance refund the 1992 various school improvement bonds. This debt will be fully repaid in the year 2018. The 1992, 1998 and 1999 general obligation bonds include capital appreciation bonds. Each year, an annual amount of accretion of discounted interest has to be added to the principal amount of the bonds.

The 1999 school improvement bonds were issued to add the H. G. Blake Elementary School, expand the Medina Senior High School, and to purchase land for a future middle school and two future elementary schools. This debt will be fully repaid in calendar year 2028.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The School District's overall legal debt margin was \$186,760,340 with an unvoted debt margin of \$1,005,943. The School District maintains an Aa3 bond rating. For more information on debt refer to Note 16 of the basic financial statements.

School District Outlook

Medina City Schools has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan. The School District ranks among the top schools in Ohio for educational excellence.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External 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.

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the Medina voters passed an 8.4 mill replacement levy in May 1995, which will help fund the general operations and permanent improvements of the School District over the next several years. The School District is expecting to have a positive general fund balance through the end of the 2004 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2004 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Medina City School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at an inflationary rate of 2.8 percent per year for future years. The affect of a 2001 property reappraisal will have a negative affect on the State's share of per pupil funding. With 56.5 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and 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 about this report or need additional financial information contact Wallace M. Gordon, Treasurer/Chief Financial Officer, at Medina City School District, 120 West Washington Street, Medina, Ohio 44256, or email at WGordon@mcsd.org.

Medina City School District

Statement of Net Assets

June 30, 2002

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$57,911,172
Accounts Receivable	2,478
Intergovernmental Receivable	108,542
Prepaid Items	417,705
Inventory Held for Resale	31,630
Materials and Supplies Inventory	30,678
Taxes Receivable	40,345,213
Nondepreciable Capital Assets	48,518,495
Depreciable Capital Assets, Net	<u>34,951,350</u>
<i>Total Assets</i>	<u>182,317,263</u>
Liabilities	
Accounts Payable	492,782
Contracts Payable	3,273,562
Accrued Wages	4,426,564
Intergovernmental Payable	1,014,346
Deferred Revenue	37,240,765
Accrued Interest Payable	16,219
Long-Term Liabilities:	
Due Within One Year	2,651,669
Due In More Than One Year	<u>97,541,611</u>
<i>Total Liabilities</i>	<u>146,657,518</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,103,616
Restricted for:	
Capital Projects	11,385,291
Debt Service	3,600,523
Set-Asides	229,687
Other Purposes	1,537,154
Unrestricted	<u>15,803,474</u>
<i>Total Net Assets</i>	<u><u>\$35,659,745</u></u>

See accompanying notes to the basic financial statements

Medina City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$26,732,501	\$176,406	\$225,425	(\$26,330,670)
Special	6,248,452	228,995	483,206	(5,536,251)
Vocational	752,011	238,888	0	(513,123)
Support Services:				
Pupils	3,111,111	0	249,565	(2,861,546)
Instructional Services	3,337,817	0	339,619	(2,998,198)
Board of Education	63,572	0	0	(63,572)
Administration	3,883,649	0	162,091	(3,721,558)
Fiscal	1,253,851	0	0	(1,253,851)
Business	863,975	0	4,016	(859,959)
Operation and Maintenance of Plant	5,646,902	0	0	(5,646,902)
Pupil Transportation	2,939,372	0	848	(2,938,524)
Central	346,088	0	52,763	(293,325)
Operation of Non-Instructional Services	1,825,595	1,227,614	758,400	160,419
Extracurricular Activities	1,181,801	640,590	162,494	(378,717)
Interest and Fiscal Charges	5,521,585	0	9,758	(5,511,827)
<i>Total Governmental Activities</i>	<u>\$63,708,282</u>	<u>\$2,512,493</u>	<u>\$2,448,185</u>	<u>(58,747,604)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	32,867,815
Debt Service	6,552,274
Capital Projects	522,837
Grants and Entitlements not Restricted to Specific Programs	
	23,175,644
Investment Earnings	2,372,405
Unrestricted Contributions and Donations	20,000
Miscellaneous	258,974

Total General Revenues 65,769,949

Change in Net Assets 7,022,345

Net Assets Beginning of Year
(See Note 4) 28,637,400

Net Assets End of Year \$35,659,745

See accompanying notes to the basic financial statements

Medina City School District

Balance Sheet

Governmental Funds

June 30, 2002

	General	Bond Retirement	Building
Assets			
Equity in Pooled Cash and Cash Equivalents	\$24,197,166	\$3,028,211	\$27,451,680
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	229,687	0	0
Receivables:			
Taxes	33,315,378	6,500,488	0
Accounts	2,233	0	0
Interfund	11,360	0	0
Intergovernmental	6,127	0	0
Inventory Held for Resale	0	0	0
Materials and Supplies Inventory	26,568	0	0
Prepaid Items	396,234	0	0
<i>Total Assets</i>	<u>\$58,184,753</u>	<u>\$9,528,699</u>	<u>\$27,451,680</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$307,403	\$0	\$128,151
Contracts Payable	3,000	0	3,270,562
Accrued Wages	4,196,895	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	639,551	0	0
Deferred Revenue	31,531,004	6,092,772	0
<i>Total Liabilities</i>	<u>36,677,853</u>	<u>6,092,772</u>	<u>3,398,713</u>
Fund Balances			
Reserved for Encumbrances	2,846,585	107,717	20,939,829
Reserved for Property Taxes	1,784,374	407,716	0
Reserved for Budget Stabilization	229,687	0	0
Unreserved: Undesignated, Reported in:			
General Fund	16,646,254	0	0
Special Revenue Funds	0	0	0
Debt Service Funds	0	2,920,494	0
Capital Projects Funds	0	0	3,113,138
<i>Total Fund Balances</i>	<u>21,506,900</u>	<u>3,435,927</u>	<u>24,052,967</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$58,184,753</u>	<u>\$9,528,699</u>	<u>\$27,451,680</u>

See accompanying notes to the basic financial statements

Medina City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2002

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$51,830,170
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$3,004,428	\$57,681,485	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	83,469,845
0	229,687		
529,347	40,345,213	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
245	2,478	Delinquent Property Taxes	911,744
0	11,360		
102,415	108,542	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(342,515)
31,630	31,630		
4,110	30,678		
21,471	417,705		
<u>\$3,693,646</u>	<u>\$98,858,778</u>	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(16,219)
		Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
\$57,228	\$492,782	General Obligation Bonds	(84,000,000)
0	3,273,562	Capital Appreciation Bonds	(10,174,100)
229,669	4,426,564	Compensated Absences	(6,019,180)
11,360	11,360		
32,280	671,831		
528,733	38,152,509		
<u>859,270</u>	<u>47,028,608</u>	Total	(100,193,280)
		<i>Net Assets of Governmental Activities</i>	<u>\$35,659,745</u>
466,101	24,360,232		
22,627	2,214,717		
0	229,687		
0	16,646,254		
1,513,524	1,513,524		
0	2,920,494		
832,124	3,945,262		
<u>2,834,376</u>	<u>51,830,170</u>		
<u>\$3,693,646</u>	<u>\$98,858,778</u>		

Medina City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	General	Bond Retirement	Building
Revenues			
Taxes	\$32,856,001	\$6,546,506	\$0
Intergovernmental	19,597,890	786,376	2,780,000
Interest	1,349,309	0	1,019,001
Tuition and Fees	228,995	0	0
Charges for Services	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	20,000	0	0
Miscellaneous	144,172	0	7,596
<i>Total Revenues</i>	<u>54,196,367</u>	<u>7,332,882</u>	<u>3,806,597</u>
Expenditures			
Current:			
Instruction:			
Regular	25,137,257	0	0
Special	5,645,017	0	0
Vocational	529,057	0	0
Support Services:			
Pupils	2,727,361	0	0
Instructional Services	2,801,891	0	0
Board of Education	63,572	0	0
Administration	3,285,716	0	0
Fiscal	1,107,929	104,459	0
Business	823,054	0	0
Operation and Maintenance of Plant	4,944,124	0	0
Pupil Transportation	2,643,773	0	0
Central	266,138	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	868,740	0	0
Capital Outlay	421,725	0	31,774,040
Debt Service:			
Principal Retirement	0	1,874,555	0
Interest and Fiscal Charges	0	4,738,273	0
<i>Total Expenditures</i>	<u>51,265,354</u>	<u>6,717,287</u>	<u>31,774,040</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,931,013</u>	<u>615,595</u>	<u>(27,967,443)</u>
Other Financing Sources (Uses)			
Transfers In	0	0	0
Transfers Out	(210,800)	0	(20,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(210,800)</u>	<u>0</u>	<u>(20,000)</u>
<i>Net Change in Fund Balances</i>	2,720,213	615,595	(27,987,443)
<i>Fund Balances Beginning of Year - Restated (See Note 4)</i>	<u>18,786,687</u>	<u>2,820,332</u>	<u>52,040,410</u>
<i>Fund Balances End of Year</i>	<u>\$21,506,900</u>	<u>\$3,435,927</u>	<u>\$24,052,967</u>

See accompanying notes to the basic financial statements

Medina 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, 2002*

Other Governmental Funds	Total Governmental Funds
\$523,200	\$39,925,707
2,340,024	25,504,290
13,853	2,382,163
0	228,995
1,642,908	1,642,908
640,590	640,590
141,470	161,470
107,206	258,974
<u>5,409,251</u>	<u>70,745,097</u>
497,268	25,634,525
466,762	6,111,779
219,838	748,895
320,391	3,047,752
384,904	3,186,795
0	63,572
474,377	3,760,093
16,718	1,229,106
15,649	838,703
516,232	5,460,356
3,948	2,647,721
65,881	332,019
1,788,332	1,788,332
271,002	1,139,742
0	32,195,765
0	1,874,555
10,800	4,749,073
<u>5,052,102</u>	<u>94,808,783</u>
<u>357,149</u>	<u>(24,063,686)</u>
230,800	230,800
0	(230,800)
<u>230,800</u>	<u>0</u>
587,949	(24,063,686)
<u>2,246,427</u>	<u>75,893,856</u>
<u>\$2,834,376</u>	<u>\$51,830,170</u>

Net Change in Fund Balances - Total Governmental Funds (\$24,063,686)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	32,430,685	
Current Year Depreciation	<u>(1,316,122)</u>	
Total		31,114,563

Governmental funds only report the disposal of fixed assets

to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(2,008)

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

Delinquent Property Taxes	17,219	
Intergovernmental	<u>(31,689)</u>	
Total		(14,470)

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

1,874,555

Some expenses 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.

Accrued Interest on Bonds	1,020	
Bond Accretion	<u>(773,532)</u>	
Total		(772,512)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(1,150,847)	
Pension Obligation	<u>36,750</u>	
Total		<u>(1,114,097)</u>

Change in Net Assets of Governmental Activities

\$7,022,345

Medina 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, 2002

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$30,231,581	\$32,150,845	\$32,150,845	\$0
Intergovernmental	18,422,222	19,591,763	19,591,763	0
Interest	1,200,977	1,277,222	1,306,963	29,741
Tuition and Fees	215,325	228,995	228,995	0
Contributions and Donations	18,806	20,000	20,000	0
Miscellaneous	127,361	133,582	133,596	14
<i>Total Revenues</i>	<u>50,216,272</u>	<u>53,402,407</u>	<u>53,432,162</u>	<u>29,755</u>
Expenditures				
Current:				
Instruction:				
Regular	26,879,660	25,951,786	25,951,786	0
Special	5,071,276	5,631,444	5,631,444	0
Vocational	549,211	538,264	538,264	0
Support Services:				
Pupils	2,649,379	2,744,052	2,744,052	0
Instructional Staff	2,857,165	2,884,009	2,884,009	0
Board of Education	130,089	120,532	120,532	0
Administration	3,822,885	3,474,624	3,474,624	0
Fiscal	1,245,511	1,225,753	1,225,753	0
Business	805,993	958,640	958,640	0
Operation and Maintenance of Plant	6,791,866	6,567,296	6,567,296	0
Pupil Transportation	3,141,797	2,983,363	2,983,363	0
Central	233,950	320,414	320,414	0
Extracurricular Activities	885,196	880,425	880,425	0
Capital Outlay	408,444	458,940	458,940	0
<i>Total Expenditures</i>	<u>55,472,422</u>	<u>54,739,542</u>	<u>54,739,542</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(5,256,150)</u>	<u>(1,337,135)</u>	<u>(1,307,380)</u>	<u>29,755</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	8,343	8,343	8,343	0
Advances Out	(11,360)	(11,360)	(11,360)	0
Transfers Out	(800,206)	(210,800)	(210,800)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(803,223)</u>	<u>(213,817)</u>	<u>(213,817)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(6,059,373)	(1,550,952)	(1,521,197)	29,755
<i>Fund Balance Beginning of Year</i>	20,474,971	20,474,971	20,474,971	0
Prior Year Encumbrances Appropriated	2,299,640	2,299,640	2,299,640	0
<i>Fund Balance End of Year</i>	<u>\$16,715,238</u>	<u>\$21,223,659</u>	<u>\$21,253,414</u>	<u>\$29,755</u>

See accompanying notes to the basic financial statements

Medina City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Private Purpose Trust Funds	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$469,220	\$171,779
Liabilities		
Accounts Payable	\$2,000	\$0
Due to Students	0	171,779
<i>Total Liabilities</i>	2,000	\$171,779
Net Assets		
Held in Trust for Scholarship	\$467,220	

See accompanying notes to the basic financial statements

Medina City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2002

	Private Purpose Trust Funds
Additions	
Interest	(\$1,152)
Extracurricular Activities	3,000
Contributions and Donations	500
<i>Total Additions</i>	2,348
Deductions	
Purchased Services	500
Scholarships Awarded	73,279
<i>Total Deductions</i>	73,779
<i>Change in Net Assets</i>	(71,431)
<i>Net Assets Beginning of Year</i>	538,651
<i>Net Assets End of Year</i>	\$467,220

See accompanying notes to the basic financial statements

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1 - Description of the School District and Report Entity

Medina City School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five member Board form of government elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District is located in Medina County and encompasses the entire City of Medina and portions of surrounding townships. The School District currently operates six elementary schools, two middle schools and one comprehensive high school staffed by 47 administrators, 476 certificated full-time teaching personnel, and 271 classified employees who provide services to 6,449 students and other community members.

Reporting Entity

A reporting entity is comprised 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 the Medina City School District, this includes general operations, food service, preschool, and student related activities of the School District.

Non-public Schools - Within the School District boundaries, The Nurtury, St. Francis Xavier, Kids Country, and the Medina Christian Academy are operated as non-public schools. Current State legislation provides funding to these schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District, as directed by the non-public schools. These transactions are reported as governmental activity of 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; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or 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 the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in two jointly governed organizations and an insurance purchasing pool. These organizations are the Medina County Career Center, Ohio Schools Council, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary funds provided they do no conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 fiscal 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, 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 which 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 activity 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 financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are also reported by type.

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balances. The following are the School District's major governmental funds:

General Fund The general fund is the general 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.

Bond Retirement Fund The bond retirement fund is used to account for the accumulation of property tax revenues for the payment of general obligation bonds issued for high school and elementary school additions and the construction of a new recreation center.

Building Fund The building fund accounts for bond proceeds and interest revenue to be used for the construction of the new recreation center.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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

Fiduciary Funds 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 has two private purpose trust funds which are both used to account for college scholarships. The School District's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The agency funds reflect resources that belong to the student bodies of the various schools, accounting for sales and other revenue generating activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all 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.

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

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 (See Note 7). 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 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 the 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The 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. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds are maintained in this pool. 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 balance sheet.

During fiscal year 2002, investments were limited to repurchase agreements, STAROhio and mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value which is based upon quoted market prices. Nonparticipating investment contracts are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during the fiscal year 2002 amounted to \$1,349,309, which included \$355,974 assigned from other School District funds.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are reported as cash equivalents.

F. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost determined on a first-in, first-out basis and expended when used.

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

G. Prepaid Items

Payment made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or by enabling legislation. Restricted assets in the general fund include amounts required by State statute to be set aside to create a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

I. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of seven 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.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	40 Years
Buildings and Improvements	40 Years
Furniture and Equipment	5 Years
Vehicles	10 Years

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

J. Interfund Balances

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

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 employer 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 benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. 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 expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, property taxes and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

N. 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 outstanding balances of any borrowing 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.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

P. Estimates

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

Q. Interfund Activity

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

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by Board of Education at the object level for the general fund, the capital projects funds and the debt service fund and at the fund level for all other funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District's Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements are the final budgeted amounts reflecting the amounts in the amended certificate in effect when the final appropriations were passed.

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

Medina City School District, Ohio
Notes to the Basic Financial Statements
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Note 3 - Fund Deficits and Legal Compliance

A. Fund Deficits

The following funds had deficit fund balances at June 30, 2002:

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
Other Grants	\$2,282
Summer Intervention	219
Miscellaneous Federal Grants	60

The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

B. Legal Compliance

The special trust private purpose trust fund had expenditures plus encumbrances in excess of appropriations of \$40,729, contrary to Ohio Revised Code Section 5705.41. Although this violation was not corrected by fiscal year-end, management has indicated that appropriations will be more closely monitored to ensure no future violations will occur.

Note 4 - Change in Accounting Principles and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2002, School District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments," GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Note Disclosures."

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between governmental and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2001, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting. As identified below, under the guidelines of Statement No. 34, all enterprise funds were reclassified as governmental, therefore no business-type activities are presented on the entity-wide statements of the School District.

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

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

Medina City School District, Ohio
Notes to the Basic Financial Statements
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Restatement of Prior Year Fund Balance It was determined that enterprise funds should be reclassified as to special revenue funds. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Bond Retirement	Building	Nonmajor	Total
Fund Balances, June 30, 2001	\$18,780,434	\$2,820,332	\$52,040,410	\$1,731,472	\$75,372,648
Implementation of GASB Interpretation No. 6	0	0	0	71,689	71,689
Fund Reclassification	6,253	0	0	443,266	449,519
Adjusted Fund Balance, June 30, 2001	<u>\$18,786,687</u>	<u>\$2,820,332</u>	<u>\$52,040,410</u>	<u>\$2,246,427</u>	75,893,856
GASB 34 Adjustments:					
Capital Assets					52,357,290
Long-Term (Deferred) Assets					926,214
Long-Term Liabilities:					
Compensated Absences Payable					(4,868,333)
General Obligation Bonds					(95,275,123)
Pension Obligations					(379,265)
Accrued Interest Payable					<u>(17,239)</u>
Governmental Activities Net Assets, June 30, 2001					<u>\$28,637,400</u>

	Business-type Activities
Net Assets, June 30, 2001	<u>\$495,524</u>
Fund Reclassification	<u>(495,524)</u>
Adjusted Net Assets, June 30, 2001	<u>\$0</u>

The net decrease in capital assets of \$10,321,770, from \$62,679,060 to \$52,357,290, was due to School District increasing their capitalization threshold from \$1,000 to \$7,000.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursement and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures 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 balances (GAAP basis).

Medina City School District, Ohio
Notes to the Basic Financial Statements
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4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$2,720,213
Net Adjustment for Revenue Accruals	(798,205)
Unrecorded Cash	42,343
Net Adjustment for Expenditure Accruals	(349,345)
Advances Out	(11,360)
Adjustment for Encumbrances	<u>(3,124,843)</u>
Budget Basis	<u><u>(\$1,521,197)</u></u>

Note 6 - 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 monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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 monies deposited with the institution.

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in the amount not to exceed twenty-five percent 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.

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

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

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$19,039,080 and the bank balance was \$20,250,223. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$20,050,223 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and 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.

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are ensured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which 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. STAROhio and mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

Medina City School District, Ohio
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	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$1,035,000	\$1,035,000	\$1,035,000
Large Company Value - Class S Mutual Fund	0	102,938	102,938
Growth and Income - Class S Mutual Fund	0	99,031	99,031
T. Rowe Price Mutual Fund	0	236,598	236,598
STAROhio	0	37,398,525	37,398,525
Totals	<u>\$1,035,000</u>	<u>\$38,872,092</u>	<u>\$38,872,092</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$58,552,171	\$0
Repurchase Agreements	(1,035,000)	1,035,000
Large Company Value - Class S Mutual Fund	(102,938)	102,938
Growth and Income - Class S Mutual Fund	(99,031)	99,031
T. Rowe Price Mutual Fund	(236,598)	236,598
STAROhio	(37,398,525)	37,398,525
GASB Statement No. 3	<u>\$19,680,079</u>	<u>\$38,872,092</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of the prior January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

Medina City School District, Ohio
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For the Fiscal Year Ended June 30, 2002

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second Half Collections		2002 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$723,829,260	85.30%	\$883,236,840	87.80%
Public Utility	30,381,650	3.58	23,196,650	2.31
Tangible Personal Property	94,351,158	11.12	99,509,231	9.89
	\$848,562,068	100.00%	\$1,005,942,721	100.00%
Tax rate per \$1,000 of assessed valuation	\$85.29		\$87.88	

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits 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 at September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2002 tangible personal property tax settlement was not received until July of 2002.

The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, personal property and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations.

The amount available as an advance at June 30, 2002, was \$2,214,717 and is recognized as revenue. \$1,784,374 was available to the general fund, \$407,716 was available to the bond retirement debt service fund and \$22,627 was available to the permanent improvement capital projects fund.

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

Note 8 - Receivables

Receivables at June 30, 2002, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
General	\$6,127
Public School Support	325
Professional Development	3,450
Title VI-B	57,793
Alternative Schools	2,805
Title I	10,000
Title II	4,189
EHA Preschool	3,380
Rotary	20,473
Total	\$108,542

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance 6/30/2001	Additions	Deletions	Balance 6/30/2002
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,990,167	\$26,602	\$0	\$3,016,769
Construction in Progress	17,679,751	27,821,975	0	45,501,726
<i>Total Capital Assets, not being depreciated</i>	20,669,918	27,848,577	0	48,518,495
<i>Capital Assets, being depreciated:</i>				
Land Improvements	970,656	486,200	0	1,456,856
Buildings and Improvements	40,587,044	3,485,856	0	44,072,900
Furniture and Equipment	434,052	43,962	0	478,014
Vehicles	3,593,492	566,090	298,594	3,860,988
<i>Total Capital Assets, being depreciated</i>	45,585,244	4,582,108	298,594	49,868,758
Less Accumulated Depreciation:				
Land Improvements	(469,322)	(24,266)	0	(493,588)
Buildings and Improvements	(11,572,121)	(914,004)	0	(12,486,125)
Furniture and Equipment	(245,604)	(60,776)	0	(306,380)
Vehicles	(1,610,825)	(317,076)	(296,586)	(1,631,315)
Total Accumulated Depreciation	(13,897,872)	(1,316,122) *	(296,586)	(14,917,408)
Total Capital Assets, being depreciated, net	31,687,372	3,265,986	2,008	34,951,350
Governmental Activities Capital Assets, Net	\$52,357,290	\$31,114,563	\$2,008	\$83,469,845

Medina City School District, Ohio
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For the Fiscal Year Ended June 30, 2002

* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$517,124
Special	111,625
Vocational	5,685
Support Services:	
Pupils	39,335
Instructional Staff	124,378
Administration	57,266
Operation and Maintenance of Plant	96,339
Pupil Transportation	287,282
Central	2,138
Non-Instructional Services	40,470
Extracurricular Activities	34,480
Total Depreciation Expense	\$1,316,122

Note 10 - Risk Management

A. Workers' Compensation

The School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefits of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

B. Property and Liability

The School District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2002, the School District contracted with several companies for various types of insurance as follows:

Company	Type of Coverage	Coverage Amount
Harcum-Hyre Insurance Agency	Education Liability	\$3,000,000
Coregis	Fleet Insurance	2,000,000
Nationwide Insurance Company	Umbrella	5,000,000
Crum and Forster Insurance Company	Property	55,868,206
	Inland Marine	2,970,486
Ohio Casualty	Crime	250,000
	Boiler and Machinery	30,000,000

Medina City School District, Ohio
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Settled claims have not exceeded this commercial coverage in any of the last three years and there have been no significant reductions in insurance coverage from last year.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension system. 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 by writing to the School Employees Retirement Systems, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent 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, 2002, 2001 and 2000 were \$412,981, \$474,705 and \$485,374, respectively; The full amount has been contributed for 2001 and 2000, 94.98 percent has been contributed for 2002, with the remainder being presented as "intergovernmental payable" in the statement of net assets.

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 basic retirement and disability benefits, annual cost-of living adjustments, and 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 included financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent 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 rate of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligation to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$2,592,309, \$2,746,364 and \$2,626,250, respectively; 91.71 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000, with the remainder being presented as "intergovernmental payable" on the statement of net assets.

Medina City School District, Ohio
Notes to the Basic Financial Statements
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Note 12 - Post Employment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$1,227,936 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year-end June 30, 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay was established as \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$719,188.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time.

Medina City School District, Ohio
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For the Fiscal Year Ended June 30, 2002

Teachers and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days. Upon retirement, certified and classified employees with at least five years of experience with the School District, receive payment for up to a maximum of eighty days computed according to negotiated agreements.

Administrative employees receive one hundred percent of sick leave days accumulated for the first forty days and fifty percent of sick leave days accumulated from the next eighty days up to a maximum of eighty days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Employees may earn up to a maximum of four days of personal leave per year. Personal leave may not be accumulated.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through commercial life insurance companies.

The School District has contracted with QualChoice, a medical care program sponsored by University Hospital of Cleveland to provide employee medical/surgical and prescription benefits. Dental insurance is provided by Coresource, Inc. The School Board pays the cost of insurance coverage for all employees.

Note 14 - Operating Leases

The School District is obligated under certain leases accounted for as operating leases. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2002.

Fiscal Year Ending June 30,	Amounts
2003	\$295,768
2004	226,575
2005	198,107
2006	167,729
2007	151,097
Total Minimum Payments	<u>\$1,039,276</u>

Note 15 - Short-Term Obligations

Changes in the School District's note activity for the fiscal year ended June 30, 2002, were as follows:

	Outstanding 6/30/2001	Additions	Reductions	Outstanding 6/30/2002
Capital Projects Fund:				
Permanent Improvement Fund				
1992, \$1,400,000, 6.0%				
Energy Conservation Note	\$180,000	\$0	\$180,000	\$0

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 16 - Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's bonds follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
Various School Improvements - 1992 Refunding - 1998	3.7 - 10.50%	\$3,674,245	December 1, 2008
Various School Improvements - 1999	3.6 - 15.70%	11,009,701	December 1, 2018
	4.05%	79,704,923	December 1, 2028

The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 7/1/01	Additions	Reductions	Principal Outstanding 6/30/02	Amount Due in One Year
<i>General Obligation Bonds:</i>					
1992 Various School Improvements					
\$3,674,245 5.5%-6.45%					
Capital Appreciation Bonds	\$2,924,848	\$0	(\$319,555)	\$2,605,293	\$455,243
Accretion on Capital Appreciation Bonds	1,525,129	343,694	0	1,868,823	0
1998 Refunding Bonds					
\$9,960,000 4.5%-5.0% Serial Bonds	9,960,000	0	(155,000)	9,805,000	160,000
\$464,701 4.90%					
Capital Appreciation Bonds	464,701	0	0	464,701	0
Accretion on Capital Appreciation Bonds	1,212,863	157,850	0	1,370,713	0
1999 Various School Improvements					
\$75,595,000 4.65% Serial Bonds	75,595,000	0	(1,400,000)	74,195,000	1,640,000
\$2,054,923 4.83-4.93%					
Capital Appreciation Bonds	2,054,923	0	0	2,054,923	0
Accretion on Capital Appreciation Bonds	1,537,659	271,988	0	1,809,647	0
Total General Obligation Bonds	95,275,123	773,532	(1,874,555)	94,174,100	2,255,243
Compensated Absences	4,868,333	1,370,661	(219,814)	6,019,180	396,426
Total Governmental Activities					
Long-Term Liabilities	<u>\$100,143,456</u>	<u>\$2,144,193</u>	<u>(\$2,094,369)</u>	<u>\$100,193,280</u>	<u>\$2,651,669</u>

In 1999, the School District issued bonds for renovations and construction of various school buildings. In 1998, the School District issued bonds for the advance refunding of school improvements bonds. In 1992, the School District issued bonds for the renovation of various school buildings.

The 1992, 1998 and 1999 general obligation bonds include serial bonds and capital appreciation bonds. For the 1992 bonds, the additions were \$343,694 which represents the annual accretion of discounted interest. The final amount of the 1992 bonds will be \$8,250,000 payable at December 2008. For the 1998 bonds, the additions were \$157,580 which represents the annual accretion of discounted interest. The final amount of the 1998 bonds will be \$3,135,000 payable at December 2018. For the 1999 bonds, the additions were \$271,988 which represents the annual accretion of discounted interest. The final amount of the 1999 bonds will be \$5,765,000 payable at December 2019.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

All general obligation bonds will be paid from property taxes. The compensated absences liability will be paid from the general fund and the food service special revenue fund.

In a prior year, the School District defeased the 1998 series general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2002, \$11,010,000 of bonds outstanding are considered defeased.

The School District's overall debt margin was \$186,760,340 with an unvoted debt margin of \$1,005,943 at June 30, 2002. Principal and interest requirements to retire general obligation bonds and capital appreciation bonds outstanding at June 30, 2002, are as follows:

	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2003	\$1,800,000	\$4,165,431	\$455,243	\$1,097,258
2004	2,055,000	4,086,095	424,867	1,111,761
2005	2,340,000	3,993,474	398,112	1,120,830
2006	2,640,000	3,886,062	370,293	1,164,054
2007	190,000	449,438	1,400,584	6,155,179
2008-2012	13,145,000	13,097,406	2,075,818	11,271,991
2013-2017	17,065,000	13,913,993	0	0
2018-2022	17,205,000	9,331,862	0	0
2023-2029	27,560,000	5,359,724	0	0
Total	\$84,000,000	\$58,283,485	\$5,124,917	\$21,921,073

Note 17 - Jointly Governed Organizations

A. Medina County Career Center

The Medina County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each participating School District's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Medina County Career Center is not part of the School District and its operations are not included as part of the reporting entity. During fiscal year 2002, no monies were paid by the Medina City School District. Financial information can be obtained by contacting the Treasurer, John Streett, at the Medina County Career Center, 1101 West Liberty Street, Medina, Ohio 44256.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among 83 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 2002, the School District paid \$750 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.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998 and the natural gas program which was implemented during fiscal year 2001.

The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self appointing board, issued \$119,140,000 in debt to repurchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The natural gas program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each November these estimates are compared to their actual usage for the year and any necessary adjustments are made.

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 18 - Insurance Purchasing Pool

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

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

B. Litigation

The Medina City School District is a party to legal proceedings. The School Board is of opinion that the ultimate disposition of the current proceeding will not have a material effect, if any, on the financial condition of the School District.

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside, with the remainder reverting to the General Fund.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Reserve
Set-aside Reserve Balances as of June 30, 2001	(\$1,936,839)	\$0	\$2,146,714
Current Year Set-aside Requirement	1,249,159	1,249,159	0
Reduction authorized by legislative revisions	0	0	(1,917,027)
Qualifying Disbursements	<u>(2,404,630)</u>	<u>(32,862,733)</u>	<u>0</u>
Totals	<u>(\$3,092,310)</u>	<u>(\$31,613,574)</u>	<u>\$229,687</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$3,092,310)</u>	<u>\$0</u>	<u>\$229,687</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$229,687</u>

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

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 21 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 22 - Contractual Commitments

As of June 30, 2002, the School District had the following major contractual commitment outstanding:

Project	Contract Amount	Amount Paid as of June 30, 2002	Amount Remaining on Contract
Medina Senior High	\$72,605,862	\$48,940,950	\$23,664,912

Note 23 - Interfund Transfers and Balances

A. Transfers

Transfers are primarily from the general fund to various funds within the School District. The Feckley recreation center monies are collected in the general fund and then transferred to the building capital projects fund. The general fund made a transfer to the permanent improvement capital projects fund to cover debt obligations.

Transfers made during the fiscal year ended June 30, 2002 were as follows:

Transfer To	Transfer From		Total
	General	Building	
Nonmajor Permanent Improvement Fund	\$210,800	\$20,000	\$230,800

B. Balances

As of June 30, 2002, the general fund had an \$11,360 interfund receivable and the nonmajor funds had a corresponding \$11,360 interfund payable. The interfund receivable and payable are due to the timing of the receipt of grant monies by the nonmajor funds.

Medina City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 24 - Recreation Center Joint Operating Agreement

On July 9, 2002 the School District entered into a joint operating agreement and lease agreement with the City of Medina for the Medina Recreation Center (the Recreation Center).

Under the terms of these agreements, the Recreation Center will be owned by the School District and the City will be granted a leasehold interest in the Recreation Center for a term commencing on the date the facilities are opened for public use and expiring on June 30, 2052, with an option to renew for an indefinite number of additional five year terms. The lease requires the City to prepay rent in the amount of \$7,500,000, which is due in installments as various phases of construction of the facility are completed. As of June 30, 2002, the City has paid \$1,000,000 of the \$7,500,000 to the School District.

In addition to the initial rent payment, the City will also be required to pay annual rent of \$1 each year, and 47.5 percent of the Recreation Center's operating expenses which will be initially paid by the School District and invoiced to the City on a monthly basis. The City and the School District will also each be required to contribute \$100,000 a year, for the term of the lease, to separate capital improvement funds which may be spent for upkeep of the facilities through mutual agreement of both parties upon the recommendation of an Advisory Committee. However, no contributions to the capital improvement funds are required, by either party, for the first two years of operations, and contributions of only 30 percent, 60 percent and 90 percent are required for the third, fourth and fifth years, respectively.

The Recreation Center's Advisory Committee will consist of seven members, in which two each will be appointed by the School District and City and four by election. The Advisory Committee members may serve for an unlimited number of three year terms, and will be responsible for advising the City and School District regarding scheduling, operating expenses and day-to-day operations of the Recreation Center, as well as, use of the Capital Improvement Funds.

The Recreation Center will be accounted for as an undivided interest for the School District. The School District and the City will report 50 percent of the construction in progress and the completed building and will each report their respective shares of the operating costs. Payments to the School District for the City's interest in the building are not reported as revenue of the School District on a GAAP basis.

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

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 EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044388 C1-S1-01	84.010	\$38,413		\$71,238	
	044388 C1-S1-02		301,639		241,628	
Total Title I Grants to Local Educational Agencies			340,052		312,866	
Innovative Education Program Strategies	044388 C2-S1-00	84.298			828	
	044388 C2-S1-01				12,158	
	044388 C2-S1-02		33,875		19,349	
Total Innovative Education Program Strategies			33,875		32,335	
Special Education Cluster:						
Special Education Grants to States	044388 6B-SF 01	84.027	(50,139)		73,249	
	044388 6B-SF 02		507,177		445,747	
Total Special Education Grants to States			457,038		518,996	
Special Education Preschool Grants	044388 PG-S1-01P	84.173	3,247		6,891	
	404388 PG-S1-02P		30,377		27,584	
Total Special Education Preschool Grants			33,624		34,475	
Total Special Education Cluster			490,662		553,471	
Eisenhower Professional Development Grant	044388 MS-S1-00	84.281			3,354	
	044388 MS-S1-01				2,782	
	044388 MS-S1 02		23,444		14,980	
Total Eisenhower Professional Development Grant			23,444		21,116	
Safe and Drug Free Schools and Communities	044388 DR-S1-01	84.186			1,617	
	044388 DR-S1 02		26,613		23,920	
Total Safe and Drug Free Schools and Communities			26,613		25,537	
Technology Literacy Challenge Fund Grant	044388 TF-VM 00	84.318	40,000		40,000	
	044388 TF-VM 01		25,000		25,000	
Total Technology Literacy Challenge Fund Grant			65,000		65,000	
Title VI-R Class-Size Reduction Grant	044388-CR-S1-01	84.340			11,890	
	044388-CR-S1-02		102,971		84,648	
Total Title VI-R Class-Size Reduction Grant			102,971		96,538	
School Renovation Grants		84.352	11,606		11,606	
Total U.S. Department of Education			1,094,223		1,118,469	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$101,949		\$97,495
National School Lunch Program	44388 LL-P4	10.555	153,442		178,213	
Total U.S. Department of Agriculture/Child Nutrition Cluster			153,442	101,949	178,213	97,495
Totals			\$1,247,665	\$101,949	\$1,296,682	\$97,495

The accompanying notes are an integral part of this schedule

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

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 - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. 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, 2002, the District had no significant food commodities in inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

We have audited the basic financial statements of Medina City School District, Medina County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 19, 2002 in which we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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.

Medina City School District
Medina County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

December 19, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

Compliance

We have audited the compliance of Medina City School District, Medina 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, 2002. 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, 2002.

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.

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.

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 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, appearing to read "Jim Petro", with a large loop at the end of the signature.

Jim Petro
Auditor of State

December 19, 2002

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
June 30, 2002**

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: Special Education Grants to States, CFDA #84.027 Special Education Preschool Grants, CFDA #84.173
(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



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MEDINA CITY SCHOOL DISTRICT

MEDINA 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 8, 2003**