

LOUISVILLE CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Louisville City School District
418 East Main Street
Louisville, Ohio 44641

We have reviewed the *Independent Auditor's Report* of the Louisville City School District, Stark County, prepared by Gary B. Fink & Associates, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Louisville City School District is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

September 12, 2005

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**LOUISVILLE CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Louisville City School District
418 East Main Street
Louisville, OH 44641

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

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

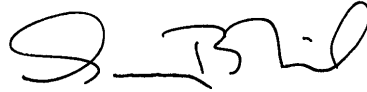
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2004 and respective changes in financial position and cash flows where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "G. B. Fink". The signature is stylized with a large initial "G" and a long horizontal line extending to the right.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

May 25, 2005

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Louisville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Louisville City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the 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 2004 are as follows:

- In total, net assets increased by \$6,562,427.
- Revenues for governmental activities totaled \$25,934,947 in 2004. Of this total, 87.9 percent consisted of general revenues while program revenues accounted for the balance of 12.1 percent.
- Program expenses totaled \$19,372,520. Instructional expenses made up 55.1 percent of this total while support services accounted for 29.8 percent. Other expenses rounded out the remaining 15.1 percent.
- Outstanding general obligation bonded debt decreased to \$25,280,000 from \$26,135,000 in 2004.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Louisville City School District as a financial whole, or complete operating entity.

The Statement of Net Assets and 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 Louisville City School District, the general fund, the bond retirement fund and the facilities construction fund are the most significant funds.

Reporting the School District as a Whole

Statement of Net Assets and 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 2004?" The *Statement of Net Assets* and *Statement of Activities* answer 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.

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. Non-financial factors may include the School District's performance, demographic and socioeconomic

Louisville City School District
Management's Discussion and Analysis
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Unaudited

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, all of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, 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 9. 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, the bond retirement fund, and the facilities construction fund.

Governmental Funds

All 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.

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 2004 compared to 2003:

Louisville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 1
Net Assets
Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$19,173,607	\$37,803,596
Capital Assets, Net	32,477,195	10,145,230
<i>Total Assets</i>	<u>51,650,802</u>	<u>47,948,826</u>
Liabilities		
Current Liabilities	13,257,612	15,362,744
Long-Term Liabilities:		
Due Within One Year	1,488,244	1,284,230
Due in More Than One Year	24,985,824	25,945,157
<i>Total Liabilities</i>	<u>39,731,680</u>	<u>42,592,131</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	7,197,195	1,725,395
Restricted for:		
Capital Projects	3,055,080	1,928,807
Debt Service	772,516	663,762
Other Purposes	496,891	486,505
Unrestricted	397,440	552,226
<i>Total Net Assets</i>	<u>\$11,919,122</u>	<u>\$5,356,695</u>

Total assets increased by \$3,701,976. The majority of this increase can be attributed the large increase in construction in progress offset by a decrease in cash for the construction costs.

Total liabilities decreased by \$2,860,451, due to the School District making \$855,000 in principal payments on the school facilities and energy conservation bonds and a large decrease in contracts payable.

By comparing assets and liabilities, one can see the overall position of the School District has increased as evidenced by the increase in net assets of \$6,562,427.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$22,794,698 or 87.9 percent of the total revenue. The most significant portions of the general revenue is grants and entitlements, and local property tax. The remaining amount of revenue received was in the form of program revenues, which equates to \$3,140,249 or 12.1 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the second year that the School District prepared financial statements following GASB Statement 34, revenue and expense comparisons can be made between the fiscal years 2004 and 2003.

Louisville City School District
Management's Discussion and Analysis
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Table 2
Changes in Net Assets
Governmental Activities

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$1,357,677	\$1,174,527
Operating Grants and Contributions	1,678,351	1,613,021
Capital Grants and Contributions	104,221	51,289
Total Program Revenues	<u>3,140,249</u>	<u>2,838,837</u>
General Revenues:		
Property Taxes	9,422,340	9,229,164
Grants and Entitlements	13,170,944	12,006,829
Investment Earnings	187,900	596,773
Miscellaneous	13,514	34,637
Total General Revenues	<u>22,794,698</u>	<u>21,867,403</u>
Total Revenues	<u>25,934,947</u>	<u>24,706,240</u>
Program Expenses		
Instruction:		
Regular	7,557,741	11,314,822
Special	2,853,859	3,070,842
Vocational	272,952	339,273
Support Services:		
Pupils	746,581	982,940
Instructional Staff	730,002	873,714
Board of Education	84,447	74,275
Administration	1,313,106	1,748,196
Fiscal	455,344	386,270
Business	159,594	155,285
Operation and Maintenance of Plant	1,338,346	1,732,639
Pupil Transportation	932,138	1,077,869
Central	4,976	5,130
Food Service Operations	609,585	1,135,635
Operation of Non-Instructional Services	452,861	445,030
Extracurricular Activities	677,257	623,658
Interest and Fiscal Charges	1,183,731	1,197,206
Total Program Expenses	<u>19,372,520</u>	<u>25,162,784</u>
Increase in Net Assets	6,562,427	(456,544)
<i>Net Assets Beginning of Year</i>	<u>5,356,695</u>	<u>5,813,239</u>
<i>Net Assets End of Year</i>	<u>\$11,919,122</u>	<u>\$5,356,695</u>

Louisville City School District
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Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. A permanent improvement renewal levy for capital expenditures was approved in March 2000 for 1.9 mills. This levy lessens the burden of ongoing building maintenance and repair costs to the general fund and will run for five years, generating approximately \$400,000 in tax revenue per year.

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.

Approximately 55.1 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff, transportation and business operations encompass 29.8 percent. The remaining amount of program expenses, 15.1 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the total net cost of program services. Table 3 shows 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 2004	Net Cost of Services 2004
Governmental Activities:		
Instruction:		
Regular	\$7,557,741	(\$6,974,139)
Special	2,853,859	(2,364,777)
Vocational	272,952	(213,624)
Support Services:		
Pupils	746,581	(623,534)
Instructional Staff	730,002	(675,883)
Board of Education	84,447	(84,447)
Administration	1,313,106	(1,074,586)
Fiscal	455,344	(455,344)
Business	159,594	(158,394)
Operation and Maintenance of Plant	1,338,346	(1,331,736)
Pupil Transportation	932,138	(904,642)
Central	4,976	(4,976)
Food Service Operations	609,585	297,575
Operation of Non-Instructional Services	452,861	(38,147)
Extracurricular Activities	677,257	(441,886)
Interest and Fiscal Charges	1,183,731	(1,183,731)
Total	\$19,372,520	(\$16,232,271)

Louisville City School District
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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 48.6 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support the remaining activity costs. Program revenues account for 16.2 percent of all governmental expenses.

School District's Funds

Information regarding the School District's major funds can be found on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$25,419,701 and expenditures of \$42,341,177. The net change in fund balance for the year was most significant in the facilities construction fund, of a decrease of \$16,334,157 due to use of the cash for construction costs.

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 2004, the School District amended its general fund budget numerous times, none significant. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program based decision and management.

For the General fund, the final budget basis estimated revenue totaled \$19,895,530, which was very close to the original estimate of \$19,586,946. Final budget basis appropriations totaled \$20,543,862 compared to the original estimate of \$20,555,012.

The general fund's unencumbered ending cash balance totaled \$3,050,063, which was slightly above the original budgeted amount of \$2,361,634, due to State foundation revenue increasing based on an increase in enrollment for the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$32,477,195 invested in land, buildings, furniture, fixtures and equipment, textbooks and library books, vehicles and construction in progress. Table 4 shows fiscal 2004 values compared to 2003. More detailed information is presented in Note 9 to the basic financial statements.

Louisville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 4
Capital Assets at June 30
Governmental Activities

	2004	2003
Land	\$778,275	\$758,383
Buildings	8,336,368	577,434
Furniture, Fixtures and Equipment	3,689,651	468,772
Textbooks and Library Books	870,051	905,238
Vehicles	896,491	492,944
Construction-In-Progress	17,906,359	6,942,459
<i>Total Capital Assets</i>	\$32,477,195	\$10,145,230

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, there was an increase in capital assets during the fiscal year, mainly due to building construction and construction in progress, as a result of the Ohio School Facilities Commission's Expedited Local Partnership Program building projects.

Debt

At June 30, 2004 the School District had \$24,830,000 of facilities construction bonds and \$450,000 of energy conservation bonds outstanding. Table 5 below summarizes the School District's bonds outstanding. More detailed information is presented in Note 10 to the basic financial statements.

Table 5
Outstanding Debt at Year End
Governmental Activities

	2004	2003
Energy Conservation Bonds	\$450,000	\$480,000
School Facilities Bond	24,830,000	25,655,000
<i>Total</i>	\$25,280,000	\$26,135,000

The 2001 school facilities bonds were issued for the local share of the School District's approved master plan with the Ohio School Facilities Commission, Expedited Local Partnership Program. These bonds will be fully repaid in calendar year 2029. The energy conservation notes were issued for capital improvements under House Bill 264. Improvements were approved by the Ohio Department of Education for energy conservation measures resulting in operating cost savings. These bonds will be fully repaid in calendar year 2015.

The School District's overall legal debt margin was \$5,055,917 with an unvoted debt margin of \$325,151.

Louisville City School District
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Unaudited

Current Issues Affecting Financial Condition

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must continue to rely heavily on local property taxes to fund its operations. External challenges include the recent purchase of J&L Specialty Steel, by Pittsburgh's Allegheny Ludlum. The effect of future reorganization and/or relocation of this plant will be a devastating financial loss for the Louisville community. J&L Specialty Steel provided 78% of our local personal property tax collections, or approximately \$700,000 in 2004. The Louisville Schools will need to become more reliant on the State or other local property taxes to fund this loss. Other 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, and budget cuts at the State level.

On November 1, 2000, the State Controlling Board approved the School District's participation in the Expedited Local Partnership Program (the "Expedited Program") under which the State will fund 52 percent of the School District's future facility needs after its issuance of the bonds.

Under the Expedited Program, a school district may enter into an agreement with the Ohio School Facilities Commission under which the school district proceeds with the new construction or major repairs of a separate and discrete portion of the school district's classroom facilities needs through the expenditure of "local resources." "Local resources" are defined as "any moneys generated in any manner" permitted for a school district portion of a school facilities project. In order to be eligible for the Expedited Program, a school district must submit a resolution passed by the school board certifying to the Commission the school district's request to participate in the Expedited Program.

Once the school district is approved for the Expedited Program, the Commission conducts an assessment and develops a current master plan for the school district. As with the Classroom Facilities Assistance Program, the Commission establishes a basic project cost, and subsequently, the state and local share percentage are determined pursuant to Chapter 3318, Ohio Revised Code. Once the master plan is complete, the school district may proceed with and pay for the discrete portion of the master plan with local resources, and may choose to fund the maintenance obligation that will be ultimately required when the school district qualifies for the Classroom Facilities Assistance Program. The master plan expenditures, if qualifying under the Ohio School Design Manual, will then count toward the local share of the Classroom Facilities Assistance Program when the school district becomes eligible. At that time, the Commission will conduct a new assessment of the school district's facilities and may determine that additional facility improvements are required. In some cases, this would require the school district to provide additional local resources to meet its local share percentage, possibly including seeking voter approval for an additional bond issue.

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the School District is quite strong. As mentioned earlier, the Louisville City School District voters had passed a 5.8 mill facilities construction bond issue levy in May of 2001, which funded the construction of a new Middle School, and renovations and additions to North Nimishillen Elementary and to the High School. The School District has also had continued success with renewing/replacing the 1.9 mill permanent improvement levy of the School District, and will look to continue that support until the matching funds come from the Ohio School Facilities Commission to finish needed building repairs, renovations, and additions to the remaining instructional buildings. The School District has communicated to the community that 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

Louisville City School District
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District to come back to the voters from time to time to ask for additional support. The last sought, and passed, operating levy for the School District was in 1992.

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 of 2000, 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. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it is expected that the decision would result in an increase in overall State funding for education. On December 11, 2002, the Ohio Supreme Court issued its 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, on its future State funding and on its financial operations.

Louisville City School District has not anticipated any meaningful growth in State revenue due to the concern the State may require the redistribution of commercial and industrial property taxes.

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.

In summary, the Louisville City School District has committed itself to financial and educational excellence for many years to come.

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 Jina Alaback Lingle, Treasurer, at Louisville City School District, 418 E. Main Street, Louisville, Ohio 44641, or email at Lingle@louisville.sparcc.org.

Basic
Financial
Statements

Louisville City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,942,201
Cash and Cash Equivalents in Segregated Accounts	399,507
Accrued Interest Receivable	27,849
Accounts Receivable	1,255
Intergovernmental Receivable	106,948
Inventory Held for Resale	16,747
Materials and Supplies Inventory	53,940
Property Taxes Receivable	9,625,160
Nondepreciable Capital Assets	18,684,634
Depreciable Capital Assets, Net	<u>13,792,561</u>
<i>Total Assets</i>	<u>51,650,802</u>
Liabilities	
Accounts Payable	11,817
Contracts Payable	1,160,231
Accrued Wages Payable	2,347,492
Matured Compensated Absences Payable	294,976
Intergovernmental Payable	543,601
Deferred Revenue	8,380,410
Accrued Interest Payable	97,401
Claims Payable	421,684
Long-Term Liabilities:	
Due Within One Year	1,488,244
Due In More Than One Year	<u>24,985,824</u>
<i>Total Liabilities</i>	<u>39,731,680</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,197,195
Restricted for:	
Capital Projects	3,055,080
Debt Service	772,516
District Managed Student Activities	153,232
Uniform School Supplies	94,955
Food Service	37,524
Bus Purchases	40,158
Summer School	31,807
Auxiliary Services	54,147
Public School Support	39,701
Other Purposes	45,367
Unrestricted	<u>397,440</u>
<i>Total Net Assets</i>	<u>\$11,919,122</u>

See accompanying notes to the basic financial statements

Louisville City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$7,557,741	\$279,202	\$227,675	\$76,725	(\$6,974,139)
Special	2,853,859	27,754	461,328	0	(2,364,777)
Vocational	272,952	0	59,328	0	(213,624)
Support Services:					
Pupils	746,581	0	123,047	0	(623,534)
Instructional Staff	730,002	0	54,119	0	(675,883)
Board of Education	84,447	0	0	0	(84,447)
Administration	1,313,106	139,682	98,838	0	(1,074,586)
Fiscal	455,344	0	0	0	(455,344)
Business	159,594	0	1,200	0	(158,394)
Operation and Maintenance of Plant	1,338,346	6,610	0	0	(1,331,736)
Pupil Transportation	932,138	0	0	27,496	(904,642)
Central	4,976	0	0	0	(4,976)
Food Service Operations	609,585	654,270	252,890	0	297,575
Operation of Non-Instructional Services	452,861	14,788	399,926	0	(38,147)
Extracurricular Activities	677,257	235,371	0	0	(441,886)
Interest and Fiscal Charges	1,183,731	0	0	0	(1,183,731)
Totals	\$19,372,520	\$1,357,677	\$1,678,351	\$104,221	(16,232,271)

General Revenues

Property Taxes Levied for:

General Purposes	7,068,645
Debt Service	1,962,250
Capital Outlay	391,445
Grants and Entitlements not Restricted to Specific Programs	13,170,944
Investment Earnings	187,900
Miscellaneous	13,514

Total General Revenues

22,794,698

Change in Net Assets

6,562,427

Net Assets Beginning of Year - Restated (See Note 3)

5,356,695

Net Assets End of Year

\$11,919,122

See accompanying notes to the basic financial statements

Louisville City School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Bond Retirement	Facilities Construction	Other Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,404,904	\$622,297	\$3,470,750	\$1,404,092
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	40,158	0	0	0
Accrued Interest Receivable	27,849	0	0	0
Accounts Receivable	1,162	0	0	93
Intergovernmental Receivable	73,108	0	0	33,840
Inventory Held for Resale	0	0	0	16,747
Materials and Supplies Inventory	43,785	0	0	10,155
Taxes Receivable	7,234,916	1,989,073	0	401,171
<i>Total Assets</i>	<u>\$10,825,882</u>	<u>\$2,611,370</u>	<u>\$3,470,750</u>	<u>\$1,866,098</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$454	\$0	\$0	\$11,363
Contracts Payable	0	0	1,104,392	55,839
Accrued Wages Payable	2,181,142	0	0	166,350
Matured Compensated Absences Payable	288,614	0	0	6,362
Intergovernmental Payable	334,434	0	0	28,872
Deferred Revenue	6,841,581	1,834,633	0	386,836
<i>Total Liabilities</i>	<u>9,646,225</u>	<u>1,834,633</u>	<u>1,104,392</u>	<u>655,622</u>
 Fund Balances				
Reserved for Encumbrances	390,165	0	1,068,964	108,249
Reserved for Property Taxes	447,650	154,440	0	27,190
Reserved for Unclaimed Monies	1,195	0	0	0
Reserved for Bus Purchases	40,158	0	0	0
Unreserved, Undesignated				
Reported in:				
General Fund	300,489	0	0	0
Special Revenue Funds	0	0	0	507,212
Debt Service Fund	0	622,297	0	0
Capital Projects Funds	0	0	1,297,394	567,825
<i>Total Fund Balances</i>	<u>1,179,657</u>	<u>776,737</u>	<u>2,366,358</u>	<u>1,210,476</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,825,882</u>	<u>\$2,611,370</u>	<u>\$3,470,750</u>	<u>\$1,866,098</u>

See accompanying notes to the basic financial statements

Louisville City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds	Total Governmental Funds Balances	\$5,533,228
	<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$8,902,043	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	32,477,195
40,158	Other long-term assets are not available to pay for current-	
27,849	period expenditures and therefore are deferred in the	
1,255	funds. These deferrals are attributed to property taxes	
106,948	and intergovernmental receivable.	
16,747	Property Taxes	615,470
53,940	Grants	12,855
9,625,160	Tuition and Fees	54,315
	Total	682,640
<u>\$18,774,100</u>	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(180,295)
\$11,817	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(97,401)
1,160,231	Long-term liabilities, including bonds payable and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:	
2,347,492	Compensated Absences	(1,194,068)
294,976	School Facilities Bonds	(24,830,000)
363,306	Energy Conservation Bonds	(450,000)
9,063,050	Total	(26,474,068)
<u>13,240,872</u>	One internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(22,177)
1,567,378	<i>Net Assets of Governmental Activities</i>	<u>\$11,919,122</u>
629,280		
1,195		
40,158		
300,489		
507,212		
622,297		
1,865,219		
<u>5,533,228</u>		
<u>\$18,774,100</u>		

See accompanying notes to the basic financial statements

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

	General	Bond Retirement	Facilities Construction	Other Governmental Funds
Revenues				
Property Taxes	\$6,655,151	\$1,897,069	\$0	\$374,758
Intergovernmental	13,070,142	235,222	0	1,640,260
Interest	61,436	0	122,003	4,461
Tuition and Fees	151,943	0	0	127,236
Extracurricular Activities	0	0	0	342,020
Contributions and Donations	1,200	0	0	6,310
Customer Sales and Services	60,501	0	0	654,270
Rentals	2,205	0	0	0
Miscellaneous	13,514	0	0	0
<i>Total Revenues</i>	<u>20,016,092</u>	<u>2,132,291</u>	<u>122,003</u>	<u>3,149,315</u>
Expenditures				
Current:				
Instruction:				
Regular	10,106,084	0	0	344,849
Special	2,948,886	0	0	390,497
Vocational	363,541	0	0	0
Support Services:				
Pupils	860,858	0	0	128,340
Instructional Staff	813,662	0	0	53,600
Board of Education	84,447	0	0	0
Administration	1,414,310	0	0	214,311
Fiscal	441,072	15,373	0	0
Business	159,115	0	0	0
Operation and Maintenance of Plant	1,603,011	0	0	0
Pupil Transportation	992,628	0	0	0
Central	1,977	0	0	2,999
Operation of Non-Instructional Services	72,201	0	0	1,320,261
Extracurricular Activities	462,526	0	0	230,770
Capital Outlay	31,088	0	16,456,160	793,267
Debt Service:				
Principal Retirement	0	855,000	0	0
Interest and Fiscal Charges	0	1,180,344	0	0
<i>Total Expenditures</i>	<u>20,355,406</u>	<u>2,050,717</u>	<u>16,456,160</u>	<u>3,478,894</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(339,314)</u>	<u>81,574</u>	<u>(16,334,157)</u>	<u>(329,579)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	970	0	0	0
Transfers In	0	59,400	0	33,984
Transfers Out	(85,626)	0	0	(7,758)
<i>Total Other Financing Sources (Uses)</i>	<u>(84,656)</u>	<u>59,400</u>	<u>0</u>	<u>26,226</u>
<i>Net Change in Fund Balances</i>	<u>(423,970)</u>	<u>140,974</u>	<u>(16,334,157)</u>	<u>(303,353)</u>
<i>Fund Balances Beginning of Year</i>	<u>1,603,627</u>	<u>635,763</u>	<u>18,700,515</u>	<u>1,513,829</u>
<i>Fund Balances End of Year</i>	<u>\$1,179,657</u>	<u>\$776,737</u>	<u>\$2,366,358</u>	<u>\$1,210,476</u>

See accompanying notes to the basic financial statements

Louisville City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	(\$16,920,506)
\$8,926,978	<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
14,945,624	Governmental funds report capital outlays as expenditures.	
187,900	However, in the statement of activities, the cost of those	
279,179	assets is allocated over their estimated useful lives as	
342,020	depreciation expense. This is the amount by which capital	
7,510	outlays exceeded depreciation in the current period.	
714,771	Capital Outlay 23,172,047	
2,205	Depreciation (656,887)	
13,514		
25,419,701	Total	22,515,160
	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(183,195)
10,450,933	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
3,339,383	Property Taxes 495,362	
363,541	Intergovernmental 382	
989,198	Tuition and Fees 21,502	
867,262	Extracurricular Activities (2,000)	
84,447		
1,628,621	Total	515,246
456,445		
159,115	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	855,000
1,603,011		
992,628	In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.	(3,387)
4,976		
1,392,462	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.	
693,296	Compensated Absences (99,681)	
17,280,515	Pension Obligation 8,451	
855,000		
1,180,344	Total	(91,230)
42,341,177		
(16,921,476)	The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	(124,661)
970		
93,384		
(93,384)		
970		
(16,920,506)	<i>Change in Net Assets of Governmental Activities</i>	<u>\$6,562,427</u>
22,453,734		
\$5,533,228		

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,670,706	\$6,696,607	\$6,712,271	\$15,664
Intergovernmental	12,628,603	12,930,031	13,055,448	125,417
Interest	140,087	60,087	61,439	1,352
Tuition and Fees	112,850	136,805	151,892	15,087
Contributions and Donations	4,000	4,000	1,200	(2,800)
Customer Sales and Services	2,000	59,000	60,501	1,501
Rentals	0	2,000	2,205	205
Miscellaneous	28,700	7,000	8,578	1,578
<i>Total Revenues</i>	<u>19,586,946</u>	<u>19,895,530</u>	<u>20,053,534</u>	<u>158,004</u>
Expenditures				
Current:				
Instruction:				
Regular	10,435,898	10,130,443	10,112,905	17,538
Special	2,393,296	2,252,406	2,240,151	12,255
Vocational	327,460	348,655	346,551	2,104
Other	630,472	842,442	783,714	58,728
Support Services:				
Pupils	871,096	858,831	851,839	6,992
Instructional Staff	862,571	818,051	806,793	11,258
Board of Education	82,177	85,177	84,756	421
Administration	1,375,378	1,405,413	1,387,833	17,580
Fiscal	394,051	432,651	431,862	789
Business	159,640	156,415	153,870	2,545
Operation and Maintenance of Plant	1,540,591	1,603,081	1,574,486	28,595
Pupil Transportation	914,899	987,904	986,382	1,522
Central	3,500	1,980	1,977	3
Operation of Non-Instructional Services	68,005	70,280	68,020	2,260
Extracurricular Activities	416,900	460,110	458,819	1,291
Capital Outlay	79,078	90,023	34,601	55,422
<i>Total Expenditures</i>	<u>20,555,012</u>	<u>20,543,862</u>	<u>20,324,559</u>	<u>219,303</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	<u>(968,066)</u>	<u>(648,332)</u>	<u>(271,025)</u>	<u>377,307</u>
Other Financing Sources (Uses)				
Proceeds from the Sale of Capital Assets	500	500	970	470
Transfers Out	(76,544)	(85,644)	(85,626)	18
<i>Total Other Financing Sources (Uses)</i>	<u>(76,044)</u>	<u>(85,144)</u>	<u>(84,656)</u>	<u>488</u>
<i>Net Change in Fund Balance</i>	(1,044,110)	(733,476)	(355,681)	377,325
<i>Fund Balance Beginning of Year</i>	3,077,733	3,077,733	3,077,733	0
Prior Year Encumbrances Appropriated	328,011	328,011	328,011	0
<i>Fund Balance End of Year</i>	<u>\$2,361,634</u>	<u>\$2,672,268</u>	<u>\$3,050,063</u>	<u>\$377,325</u>

See accompanying notes to the basic financial statements

Louisville City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2004

	<u>Insurance</u>
Assets	
Cash and Cash Equivalents in Segrated Accounts	\$399,507
Liabilities	
Claims Payable	<u>421,684</u>
Net Assets	
Unrestricted (Deficit)	<u><u>(\$22,177)</u></u>

See accompanying notes to the basic financial statements

Louisville City School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004*

	Insurance
Operating Revenues	
Charges for Services	\$2,242,980
Operating Expenses	
Purchased Services	258,482
Claims	2,109,159
<i>Total Operating Expenses</i>	2,367,641
<i>Change in Net Assets</i>	(124,661)
<i>Net Assets Beginning of Year</i>	102,484
<i>Net Assets (Deficit) End of Year</i>	(\$22,177)

See accompanying notes to the basic financial statements

Louisville City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Insurance
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,242,980
Cash Payments for Goods and Services	(258,482)
Cash Payments for Claims	(2,001,896)
<i>Net Decrease in Cash and Cash Equivalents</i>	(17,398)
<i>Cash and Cash Equivalents Beginning of Year</i>	416,905
<i>Cash and Cash Equivalents End of Year</i>	\$399,507
 <i>Reconciliation of Operating Loss</i>	
<i>to Net Cash Used for Operating Activities</i>	
<i>Operating Loss</i>	(\$124,661)
 Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities	
Increase/(Decrease) in Liabilities:	
Claims Payable	107,263
<i>Net Cash Used for Operating Activities</i>	(\$17,398)

See accompanying notes to the basic financial statements

Louisville City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$108,327</u></u>
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Liabilities

Due to Students	<u><u>\$108,327</u></u>
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See accompanying notes to the basic financial statements

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Louisville 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 Board of Education (the "Board") form of government consisting of five members 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 Stark County and encompasses the entire City of Louisville, and a portion of Nimishillen Township. The School District has 7 instructional facilities, 1 bus garage, and 1 administrative facility, staffed by 152 classified employees and 226 certificated employees who provide services to 3,298 students and other community members.

Reporting Entity

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

Within the School District boundaries, St. Thomas Aquinas High School, St. Louis Elementary and Sacred Heart Elementary are operated as non-public schools. Current State legislation provides funding to these schools. These monies are received and disbursed on behalf of the schools by the Treasurer of the School District, as directed by the schools. The activity of these State monies is reflected in a special revenue fund by the School District for financial reporting purposes.

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 the 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 has no component units.

The School District is associated with Stark/Portage Area Computer Consortium, the R.G. Drage Career Center and the Stark County Tax Incentive Review Council, jointly governed organizations; the Louisville Public Library, a related organization; and the Stark County Schools Council of Government Workers' Compensation Group Rating Program, an insurance purchasing pool. These organizations are presented in Notes 11, 12 and 13 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Louisville City 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 body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are 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. There are three categories of funds: governmental, proprietary and fiduciary.

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Bond Retirement Debt Service Fund The bond retirement fund is used to account for property taxes and intergovernmental revenues, and the payment of, general long-term debt principal, interest and related costs.

Facilities Construction Capital Projects Fund The facilities construction capital projects fund accounts for bond proceeds used for the acquisition and construction of classroom facilities.

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

Proprietary Fund Type Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance fund that accounts for health and dental claims of School District employees.

Fiduciary Fund Type 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 no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student 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 (e.g., revenues and other financing sources) and uses (e.g., 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

The 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.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

The School District has a segregated bank account for self-insurance monies held separate from the School District's central bank account. This depository account is presented on the statements as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements, certificates of deposit, bankers' acceptances, Federal Home Loan Bank Notes, Federal Farm Credit Bureau Notes, Federal Home Loan Mortgage Corporation Notes, and Federal National Mortgage Association Notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements 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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$61,436, which includes \$23,468 assigned from other School District funds.

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 presented on the financial statements as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used.

Inventories consist of donated and purchased food, supplies held for resale and supplies held for consumption.

G. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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:

Description	Governmental Activities Estimated Lives
Buildings	40 years
Furniture, Fixtures and Equipment	10 years
Vehicles	15 years
Textbooks and Library Books	8 years

H. 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. The School District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

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.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

I. 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.

J. Interfund Activity

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

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

K. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, unclaimed monies and bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Under Ohio law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

L. 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 borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include special education, professional development and unclaimed monies.

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

N. 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.

O. Estimates

The preparation of 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.

P. 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 amounts

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

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 for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Note 3 – Restatement of Net Assets

Net assets at June 30, 2003 have been restated for the following:

1. Construction in progress was erroneously calculated.

This restatement had the following effect on the changes in net assets at June 30, 2003:

Net Assets, June 30, 2003	\$7,011,715
Correction of construction in progress	<u>(1,655,020)</u>
Restated change in Net Assets, as of June 30, 2003	<u><u>\$5,356,695</u></u>

Note 4 - Fund Deficits

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

Special Revenue Funds:	
Title VI	\$3,844
Preschool	3,986
Class Size Reduction	14,846
Ohio Reads	293
Drug Free Schools	41

The special revenue fund deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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 balance (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	(\$423,970)
Net Adjustment for Revenue Accruals	37,442
Net Adjustment for Expenditure Accruals	425,846
Encumbrances	(394,999)
Budget Basis	<u><u>(\$355,681)</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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. 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 obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$2,055,092 and the bank balance was \$3,083,618. \$300,078 of the bank balance was covered by federal depository insurance. \$2,783,540 was uninsured and uncollateralized. 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 The School District's investments are required 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 insured 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. The School District invests in STAROhio, the State Treasurer's Investment Pool, which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Carrying Amount	Fair Value
Investment in State				
Treasurer's Investment Pool			\$3,412,199	\$3,412,199
Repurchase Agreement	\$0	\$1,260,000	1,260,000	1,260,000
Federal Home Loan Bank Notes	246,902	0	246,902	246,902
Federal Home Loan Mortgage Corporation Notes	1,482,442	0	1,482,442	1,482,442
Federal National Mortgage Association Notes	993,400	0	993,400	993,400
Total Investments	<u>\$2,722,744</u>	<u>\$1,260,000</u>	<u>\$7,394,943</u>	<u>\$7,394,943</u>

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$9,450,035	\$0
Investments of the Cash Management Pool:		
STAROhio	(3,412,199)	3,412,199
Repurchase Agreement	(1,260,000)	1,260,000
Federal Home Loan Bank Notes	(246,902)	246,902
Federal Home Loan Mortgage Corporation Notes	(1,482,442)	1,482,442
Federal National Mortgage Association Notes	(993,400)	993,400
GASB Statement No. 3	<u>\$2,055,092</u>	<u>\$7,394,943</u>

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Stark County. The County Auditor periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$447,650 in the general fund, \$154,440 in the bond retirement debt service fund, and \$27,190 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2003, was \$504,770 in the general fund, \$165,810 in the bond retirement debt service fund, and \$32,460 in the permanent improvement capital projects fund.

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

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$258,252,980	87.53 %	\$291,403,860	89.62 %
Public Utility Personal	9,300,990	3.15	9,669,210	2.97
Tangible Personal Property	27,506,299	9.32	24,078,266	7.41
Total	\$295,060,269	100.00 %	\$325,151,336	100.00 %
Tax rate per \$1,000 of assessed valuation	\$55.90		\$55.90	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), tuition 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.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Tuition	\$54,090
National School Lunch Reimbursement	33,840
CAFS	19,018
<i>Total Governmental Activities</i>	\$106,948

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 9 – Capital Assets

The capital asset balances of governmental activities have been restated due to construction in progress being erroneously calculated. Below is a summary of the effect of the restatement:

	<u>Balance</u>	<u>Adjustments</u>	<u>Restated</u>
	<u>6/30/03</u>		<u>Balance</u>
			<u>6/30/03</u>
Governmental Activities			
Capital Assets, not being depreciated:			
Land	\$758,383	\$0	\$758,383
Construction in Progress	8,597,479	(1,655,020)	6,942,459
Total Capital Assets, not being Depreciated	<u>9,355,862</u>	<u>(1,655,020)</u>	<u>7,700,842</u>
Capital Assets, being Depreciated			
Buildings	7,133,884	0	7,133,884
Furniture, Fixtures and Equipment	2,252,894	0	2,252,894
Textbooks and Library Books	1,718,449	0	1,718,449
Vehicles	1,556,344	0	1,556,344
Total Capital Assets, being Depreciated	<u>12,661,571</u>	<u>0</u>	<u>12,661,571</u>
Less Accumulated Depreciation:			
Buildings	(6,556,450)	0	(6,556,450)
Furniture, Fixtures and Equipment	(1,784,122)	0	(1,784,122)
Textbooks and Library Books	(813,211)	0	(813,211)
Vehicles	(1,063,400)	0	(1,063,400)
Total Accumulated Depreciation	<u>(10,217,183)</u>	<u>0</u>	<u>(10,217,183)</u>
Total Capital Assets, being Depreciated, net	<u>2,444,388</u>	<u>0</u>	<u>2,444,388</u>
Governmental Activities Capital Assets, Net	<u>\$11,800,250</u>	<u>(\$1,655,020)</u>	<u>\$10,145,230</u>

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

	Restated Balance 7/1/03	Additions	Deductions	Balance 6/30/04
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$758,383	\$19,892	\$0	\$778,275
Construction in Progress	6,942,459	19,630,415	(8,666,515)	17,906,359
Total Capital Assets, not being Depreciated	<u>7,700,842</u>	<u>19,650,307</u>	<u>(8,666,515)</u>	<u>18,684,634</u>
Capital Assets, being Depreciated				
Buildings	7,133,884	8,029,280	0	15,163,164
Furniture, Fixtures and Equipment	2,252,894	3,510,083	(231,348)	5,531,629
Textbooks and Library Books	1,718,449	122,566	(19,885)	1,821,130
Vehicles	1,556,344	526,326	(160,156)	1,922,514
Total Capital Assets, being Depreciated	<u>12,661,571</u>	<u>12,188,255</u>	<u>(411,389)</u>	<u>24,438,437</u>
Less Accumulated Depreciation:				
Buildings	(6,556,450)	(270,346)	0	(6,826,796)
Furniture, Fixtures and Equipment	(1,784,122)	(140,829)	82,973	(1,841,978)
Textbooks and Library Books	(813,211)	(137,868)	0	(951,079)
Vehicles	(1,063,400)	(107,844)	145,221	(1,026,023)
Total Accumulated Depreciation	<u>(10,217,183)</u>	<u>(656,887) *</u>	<u>228,194</u>	<u>(10,645,876)</u>
Total Capital Assets, being Depreciated, net	<u>2,444,388</u>	<u>11,531,368</u>	<u>(183,195)</u>	<u>13,792,561</u>
Governmental Activities Capital Assets, Net	<u>\$10,145,230</u>	<u>\$31,181,675</u>	<u>(\$8,849,710)</u>	<u>\$32,477,195</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$336,159
Special	7,175
Vocational	2,156
Support Services:	
Pupils	11,554
Instructional Staff	6,912
Administration	16,134
Pupil Transportation	119,957
Operation and Maintenance of Plant	88,916
Non-Instructional Services	34,621
Extracurricular Activities	33,303
Total Depreciation Expense	<u>\$656,887</u>

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 10 – Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Amount			Amount	Amounts
	Outstanding	Additions	Deletions	Outstanding	Due in
	6/30/03			6/30/04	One Year
Governmental Activities					
School Facilities Bonds (various)	\$25,655,000	\$0	\$825,000	\$24,830,000	\$880,000
Energy Conservation Bonds 6.125%	480,000	0	30,000	450,000	30,000
Compensated Absences	1,094,387	230,986	131,305	1,194,068	578,244
Total Governmental Activities	<u>\$27,229,387</u>	<u>\$230,986</u>	<u>\$986,305</u>	<u>\$26,474,068</u>	<u>\$1,488,244</u>

On October 15, 2001, Louisville City School District issued \$26,270,000 in voted general obligation serial bonds for the construction of a new Middle School, and renovations and additions to North Nimishillen Elementary and to the High School. The bonds were issued for a twenty-nine year period with final maturity at December 1, 2029.

On September 15, 1997, Louisville City School District issued \$555,000 in energy conservation bonds. The bonds were issued for a fifteen-year period with final maturity at June 1, 2015.

The school facilities bonds and the energy conservation bonds will be paid from the debt service fund. Compensated absences will be paid from the General fund and Food Service, Auxiliary Services, Title VI-B, Title I and Preschool special revenue funds.

The overall debt margin of the School District as of June 30, 2004 was \$5,055,917 with an unvoted debt margin of \$325,151. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

Year Ending	School Facilities Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
June 30,				
2005	\$880,000	\$1,129,590	\$30,000	\$27,563
2006	415,715	1,117,930	30,000	25,725
2007	377,758	1,117,930	35,000	23,887
2008	51,527	1,117,930	35,000	21,744
2009	200,000	1,114,330	40,000	19,600
2010-2014	1,860,000	5,393,226	225,000	60,024
2015-2019	3,525,000	4,824,086	55,000	3,369
2020-2024	5,905,000	3,697,625	0	0
2025-2029	9,285,000	1,820,125	0	0
2030	2,330,000	58,250	0	0
Total	<u>\$24,830,000</u>	<u>\$21,391,022</u>	<u>\$450,000</u>	<u>\$181,912</u>

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 11 - Jointly Governed Organizations

Stark/Portage Area Computer Consortium The Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments pursuant to State statutes made up of public school districts and educational service centers from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the School District's continued participation and no equity interest exists. Louisville City School District paid \$27,686 to SPARCC during fiscal year 2004 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street N.W., Canton, Ohio 44709.

R.G. Drage Career Center The Stark County Area Vocational School (R.G. Drage) is a joint vocational school which is a jointly governed organization among six school districts. It is operated under the direction of a seven member Board consisting of one representative from each of the six participating school district's boards and one board member that rotates from each participating district. R.G. Drage offers vocational education. The Board has its own budgeting and taxing authority. Financial information can be obtained by writing the R.G. Drage Career Center, 6805 Richville Drive S.W., Massillon, Ohio 44646.

Stark County Tax Incentive Review Council The Stark County Tax Incentive Review Council (TIRC) is a jointly governed organization, created as a regional council of governments pursuant to State statutes. TIRC has 24 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by boards of education located within the enterprise zones of Stark County. The TIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the TIRC is not dependent upon the School District's continued participation and no measurable equity interest exists.

Note 12 – Related Organization

The Louisville Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Louisville City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Louisville Public Library, 700 Lincoln, Louisville, Ohio 44641.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 13 - Insurance Purchasing Pool

The Stark County Schools Council of Government Workers' Compensation Group Rating Program has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and representatives who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the School District by the group with other members of the group. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on the percentage created by comparing its payroll to the total payroll of the group.

Note 14 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the School District's contracted with Indiana Insurance for the following coverage:

Type of Coverage	Limits	Deductible
Liability	\$1,000,000/\$2,000,000	\$5,000
School Leaders Errors/Omissions	\$1,000,000/\$1,000,000	\$2,500
Law Enforcement Liability	\$1,000,000/\$1,000,000	\$2,500
Sexual Misconduct/Molestation	\$1,000,000/\$1,000,000	\$0
Employee Benefits Liability	\$1,000,000/\$3,000,000	\$1,000
Excess Liability/Umbrella	\$5,000,000/\$5,000,000	\$0
Fleet Insurance	\$1,000,000 liability	\$250/\$500
Property Insurance	\$43,738,020	\$5,000
Inland Marine	\$446,861	\$250
Crime	\$50,000	\$1,000
Employee Dishonesty	\$50,000	\$1,000
Builders Risk - Middle School	\$13,310,037	\$5,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

B. Worker's Compensation

The School District participates in the Stark County Schools' Council of Government Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control and actuarial services to the GRP, and the firm of AultComp provides medical review analysis services to the GRP.

C. Employee Insurance Benefits

The School District offers health and dental insurance to all eligible employees through a self-insurance fund. The School District has a third party administrator, Benefit Services, review and administer the claims activity. The Board pays the entire cost of the monthly premiums for eligible employees, including administration fees, to Benefit Services. The premium at June 30, was \$657.74 family/\$232.41 single for medical insurance and \$75.00 for dental insurance per month.

The claims liability of \$421,684 reported in the internal service fund at June 30, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2003	\$162,777	\$2,064,685	\$1,913,041	\$314,421
2004	314,421	2,109,159	2,001,896	421,684

Note 15 - 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 plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

for the fiscal years ended June 30, 2004, 2003 and 2002 were \$249,440, \$214,121 and \$134,572 respectively; 57.67 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,485,566, \$1,401,088, and \$970,289 respectively; 86.2 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$8,271 made by the School District and \$35,793 made by the plan members.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

C. Social Security System

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

Note 16 - Postemployment 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 dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All retirees from the DB and Combined Plans and their 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$114,274 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by fifty percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 0.92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$176,471.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 17 - Other Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Eligible employees earn three days of personal leave per year, which may not be accumulated. Full-time classified employees earn five to twenty days of vacation per year, depending upon length of service; part-time 12-month employees earn vacation on a prorated basis. Up to one year's maximum accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with a maximum of 272 days. Upon retirement of a classified employee, payment is made for one-fourth of the first 180 days of total sick leave accumulation, and 10 percent of any remaining days, for a maximum payment of 68 days. Upon retirement of a certified employee, payment is made for one-fourth of accumulated but unused sick leave credit to a maximum of 68 days. Employees receiving such payment must meet the retirement provisions set by STRS or SERS.

B. *Early Notification of Retirement Incentive*

Any employee giving notice of retirement no later than February 1 in any year, will receive double severance pay up to a maximum of \$10,000 for the doubled portion. The Board does not limit the number of employees participating in the plan in any one year. The doubled portion is paid on July 15, the following school year. These expenditures are reflected in the funds from which the employee's salary and severance are paid.

C. *Life Insurance*

The School District provides life insurance through Boston Mutual Life Insurance Company and accidental death and dismemberment insurance through AIG Life Insurance Company, to eligible employees.

D. *Longevity*

The Board pays a longevity allowance to classified personnel at 8 years, 12 years, 16 years, and 20 years of continuous service in the School District. The allowance amount is based on contract length, and is described in the negotiated agreement.

Note 18 - 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Louisville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2003	(\$196,661)	\$0
Current Year Set-aside Requirement	464,101	464,101
Current Year Offsets	0	(424,164)
Qualifying Disbursements	(462,198)	(141,573)
Totals	(\$194,758)	(\$101,636)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$194,758)	\$0
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0

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

Note 19 - Contingencies

Grants

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

Note 20 - School State 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 its future State funding and on its financial operations.

Louisville City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 21 - Interfund Balances and Transfers

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

Transfer to	Transfer From		Total
	General	Nonmajor Funds	
Bond Retirement	\$59,400	\$0	\$59,400
Nonmajor funds	26,226	7,758	33,984
	\$85,626	\$7,758	\$93,384

\$59,400 was transferred from the general fund to the bond retirement debt service fund for debt obligations. Other transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Louisville City School District
418 East Main Street
Louisville, OH 44641

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville City School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

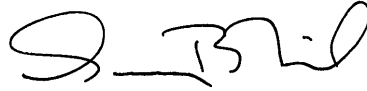
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the 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*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated May 25, 2005.

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 an opinion 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 caused by error or fraud 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 operations that we consider to be material weaknesses.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS** (continued)

This report is intended solely for the information and use of 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 "G. B. Fink". The signature is fluid and cursive, with a horizontal line extending from the bottom of the "F" to the right.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

May 25, 2005

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

Board of Education
Louisville City School District
418 East Main Street
Louisville, OH 44641

Compliance

We have audited the compliance of the Louisville City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal program is 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 Louisville City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)

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 solely for the information and use of 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.



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

May 25, 2005

Louisville City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Team Nutrition Grants	10.574	049874-TWSU-2004	\$5,600	\$0
Child Nutrition Cluster:				
National School Breakfast Program	10.553	049874-05PU-2003	1,588	1,588
National School Breakfast Program	10.553	049874-05PU-2004	12,131	12,131
Total National School Breakfast Program			13,719	13,719
National School Lunch Program	10.555	049874-LLP4-2003	25,495	25,495
National School Lunch Program	10.555	049874-LLP4-2004	172,462	172,462
Total National School Lunch Program			197,957	197,957
Food Distribution	10.550	---	103,731	103,731
Total Child Nutrition Cluster			315,407	315,407
Total U.S. Department of Agriculture			321,007	315,407
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	049874-C1S1-2003	0	56,049
Title I Grants to Local Educational Agencies	84.010	049874-C1S1-2004	162,396	137,920
Total Title I Grants to Local Educational Agencies			162,396	193,969
Special Education Cluster:				
Special Education-Grants to States (Title VI-B Flow-Thru)	84.027	049874-6BSF-2003	0	36,133
Special Education-Grants to States (Title VI-B Flow-Thru)	84.027	049874-6BSF-2004	389,227	337,739
Total Special Education-Grants to States (Title VI-B Flow-Thru)			389,227	373,872
Special Education-Grants to States (Preschool Grants)	84.173	049874-PGS1-2003-P	0	121
Special Education-Grants to States (Preschool Grants)	84.173	049874-PGS1-2004	18,171	18,171
Total Special Education-Grants to States (Preschool Grants)			18,171	18,292
Total Special Education Cluster			407,398	392,164
Safe and Drug-Free Schools and Communities - State Grants	84.186	049874-DRS1-2004	11,141	11,141
Innovative Program State Grants	84.298	049874-C2S1-2003	0	1,208
Innovative Program State Grants	84.298	049874-C2S1-2004	21,651	21,651
Total State Grants for Innovative Programs			21,651	22,859
Technology Literacy Challenge Fund Grants	84.318	049874-TJS1-2004	4,396	3,566
Improving Teacher Quality State Grants	84.367	049874-TRS1-2003	0	1,888
Improving Teacher Quality State Grants	84.367	049874-TRS1-2004	98,223	98,223
Total Improving Teacher Quality State Grants			98,223	100,111
Total U.S. Department of Education			705,205	723,810
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance CAFS	93.778	---	62,259	62,259
Total Federal Assistance			<u>\$1,088,471</u>	<u>\$1,101,476</u>

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

LOUISVILLE CITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain inventory records for purchased food and food received from the U.S. Department of Agriculture. Nonmonetary 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 disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

LOUISVILLE CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

LOUISVILLE CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

(d)(1)(vii)	Major Program:	Special Education – Grants to State, CFDA #84.027 and 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 FOR FEDERAL AWARDS

None

LOUISVILLE CITY SCHOOL DISTRICT

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; Explain
2003-001	Fundraiser Request Form, Profit/Loss Statement and/or Sales Potential Forms not signed or properly completed.	Yes	Finding No Longer Valid



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**LOUISVILLE CITY SCHOOL DISTRICT
STARK 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
SEPTEMBER 22, 2005**