

**Auditor of State
Betty Montgomery**

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Oberlin City School District, Lorain County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the 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 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance and other matters with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipt and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipt and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 18, 2005

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The management discussion and analysis of Oberlin 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 management discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the transmittal letter, 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 decreased by \$ 998,539.

Revenues for governmental activities totaled \$ 11,002,299 in 2004. Of this total, 85 percent consisted of General Revenues while Program Revenues accounted for the remaining balance of 15 percent.

Program Expenses totaled \$ 12,000,838. Instructional expenses made up 56 percent of this total while support services accounted for 38 percent. Other expenses rounded out the remaining 6 percent.

Using this Financial Report

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

The Statement of Net Assets and 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 fund with all other non-major funds presented in total in one column. In the case of Oberlin City School District, the general fund is the most significant.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all the current year's revenues and expenses regardless of when cash is received or paid.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

These two statements report the School District's net assets and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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 fund. The School District's major governmental fund is the General 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 these 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.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The School District as a Whole

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:

TABLE 1

	2004	2003
Assets		
Current and other assets	\$ 6,342,146	\$ 7,039,267
Capital assets, net	6,507,991	6,698,735
Total assets	12,850,137	13,738,002
Liabilities		
Current liabilities	5,650,321	5,311,416
Long term liabilities		
Due within one year	384,169	346,472
Due in more than one year	1,129,193	1,395,121
Total liabilities	7,163,683	7,053,009
Net assets		
Invested in capital assets, net of related debt	6,196,183	6,509,653
Restricted for:		
Debt service	-	402,753
Capital projects and other purposes	297,367	109,831
Unrestricted (deficit)	(807,096)	(337,244)
Total net assets	\$ 5,686,454	\$ 6,684,993

Governmental Activities

By comparing assets and liabilities, one can see the overall position of the School District has not improved as evidenced by the decrease in net assets of \$ 998,539.

The vast majority of revenue supporting all Governmental Activities is from General Revenues. General Revenue totaled \$ 9,405,283 or 85 percent of the total revenue. The most significant portion of the General Revenues is local property tax. The remaining amount of revenue was in the form of program revenues, which equated to \$ 1,597,016 or only 15 percent of total revenue.

Table 2 summarizes the revenue, expenses and the changes in net assets for fiscal years 2004 and 2003.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

TABLE 2

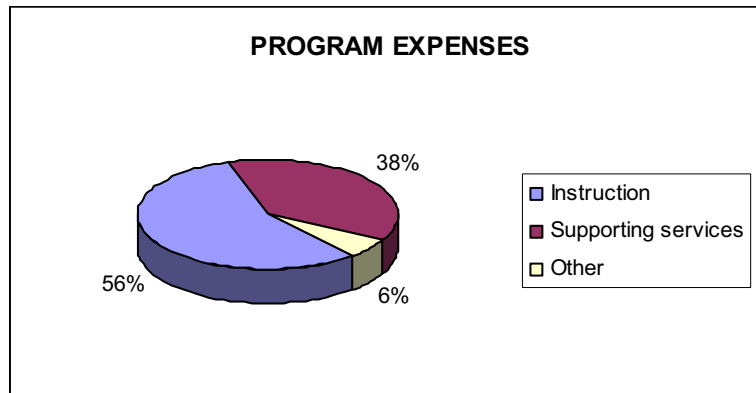
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues		
Charges for services and sales	\$ 487,079	\$ 148,562
Operating grants, interest and contributions	1,092,017	952,333
Capital grants and contributions	17,920	20,000
Total program revenues	<u>\$ 1,597,016</u>	<u>1,120,895</u>
General revenues		
Property taxes	5,700,799	5,070,275
Grants and entitlements	3,574,961	3,429,235
Investment earnings	49,175	93,037
Miscellaneous	80,348	836,237
Total general revenues	<u>9,405,283</u>	<u>9,428,784</u>
Total revenues	<u>11,002,299</u>	<u>10,549,679</u>
Program expenses		
Instruction		
Regular	5,673,875	6,520,389
Special	1,002,081	1,111,158
Vocational	83,725	121,380
Supporting services		
Pupil	750,182	909,762
Instructional staff	320,728	377,578
Board of education	78,293	85,347
Administration	1,154,575	1,150,484
Fiscal services	332,501	222,206
Business	85,199	100,246
Operation and maintenance	1,403,156	1,152,810
Pupil transportation	451,888	369,890
Central services	36,164	38,114
Operation of non-instructional		
Food service operation	358,545	316,983
Community services	-	1,000
Extracurricular	261,410	234,685
Interest	8,516	18,382
Total expenses	<u>12,000,838</u>	<u>12,730,414</u>
Change in net assets	(998,539)	(2,180,735)
Net assets at beginning of year	<u>6,684,993</u>	<u>8,865,728</u>
Net assets at end of year	<u>\$ 5,686,454</u>	<u>\$ 6,684,993</u>

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The School District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In May of 2004, the School District submitted its yearly five-year forecast to the Ohio Department of Education. Based upon the current five-year financial forecast, the School District has adequate operating funds for only this 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 56 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 38 percent. The remaining program expenses of 6 percent are budgeted to facilitate other obligations of the School District, such as the food service program, numerous extracurricular activities and debt service.

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. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.



OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

TABLE 3

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Governmental activities		
Instruction		
Regular	\$ 5,673,875	\$ (5,153,841)
Special	1,002,081	(768,458)
Vocational	83,725	(83,725)
Supporting services		
Pupil	750,182	(314,019)
Instructional staff	320,728	(302,381)
Board of education	78,293	(78,293)
Administration	1,154,575	(1,154,575)
Fiscal services	332,501	(332,501)
Business	85,199	(80,199)
Operation and maintenance	1,403,156	(1,403,156)
Pupil transportation	451,888	(451,888)
Central services	36,164	(22,552)
Operation of non-instructional		
Food service operation	358,545	(25,427)
Extracurricular	261,410	(224,291)
Interest	8,516	(8,516)
Total program expenses	<u>\$ 12,000,838</u>	<u>\$(10,403,822)</u>

The reliance upon local tax revenues for governmental activities is crucial. Over 47 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 32 percent, while investments and other miscellaneous type revenues support the remaining activity costs of 1 percent. Program Revenues fund only 13 percent of all governmental expenses.

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

School District Funds

Information regarding the School District's major fund can be found on page 13. These funds are accounted for using the modified accrual basis of accounting.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

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, but not significantly. Fluctuations among the budget basis expenditures categories are due to the School District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

The School District ended the school year with a General Fund unencumbered cash balance of \$255,163.

Capital Assets and Debt Administration

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2004, the School District had \$ 6,507,991 invested in land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2004 values compared to 2003.

TABLE 4

	2004	2003
Land	\$ 2,279,070	\$ 2,279,070
Land improvements	314,971	363,613
Building and improvements	3,388,769	3,678,510
Furniture and equipment	472,432	300,017
Vehicles	52,749	77,525
Total capital assets	\$ 6,507,991	\$ 6,698,735

During fiscal 2004, the School District purchased \$ 239,726 of capital assets. Approximately 97 percent or \$ 233,642 was for furniture and equipment with the remaining 3 percent or \$ 6,084 for vehicles. The decrease in capital assets is primarily due to depreciation expense.

Debt

At June 30, 2004 the School District had \$ 59,200 in outstanding bonds. Proceeds from the bonds were used for Energy Conservation projects throughout the District. The bonds are to be repaid in annual payments of interest and principal through fiscal year 2005.

Current Financial Related Activities

The School District does not have a good financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the School District's Continuous Improvement Plan.

The School District's financial future is not without challenges. The nature of school funding in Ohio severely restricts the growth in the School District's operating revenues and requires the School District to periodically seek additional funds from the taxpayers to offset rising operating costs. The Oberlin voters continue to show their support for the schools as illustrated with the passage of new and replacement levies.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

In addition to the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions. In June 1999, the Ohio General Assembly passed House Bill 284 that will phase-out, over a period of 25 years, the taxation on business inventories. Once fully implemented, the School District's operating revenue will be reduced by approximately \$ 900,000 annually.

Financial aid from the State of Ohio through the State Foundation Program has been declining as a major source of operating revenue for the Oberlin City School District. Because Oberlin City Schools is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the School District's administration continues to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration is currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the School District's Financial Management

This report is designed to provide our citizens, taxpayers 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 Diane Wolf, Treasurer at Oberlin City School District, 153 N. Main St., Oberlin, Ohio 44074.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets	
Equity in pooled cash	\$ 958,568
Inventories and supplies	5,759
Taxes receivable	5,377,819
Capital assets	
Nondepreciable capital assets	2,279,070
Depreciable capital assets	4,228,921
Total assets	12,850,137
 Liabilities	
Accounts and contracts payable	62,320
Accrued salaries, wages and benefits	1,173,360
Accrued interest payable	3,208
Claims payable	312,123
Due to other governments	249,990
Deferred revenue	3,849,320
Long term liabilities	
Due within one year	384,169
Due in more than one year	1,129,193
Total liabilities	7,163,683
 Net assets	
Invested in capital assets, net of related debt	6,196,183
Restricted for:	
Capital projects	294,781
Other purposes	2,586
Unrestricted (deficit)	(807,096)
Total net assets	\$ 5,686,454

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 5,673,875	\$ 313,987	\$ 188,127	\$ 17,920	\$ (5,153,841)
Special	1,002,081	-	233,623	-	(768,458)
Vocational	83,725	-	-	-	(83,725)
Supporting services					
Pupil	750,182	-	436,163	-	(314,019)
Instructional staff	320,728	-	18,347	-	(302,381)
Board of education	78,293	-	-	-	(78,293)
Administration	1,154,575	-	-	-	(1,154,575)
Fiscal services	332,501	-	-	-	(332,501)
Business	85,199	-	5,000	-	(80,199)
Operation and maintenance	1,403,156	-	-	-	(1,403,156)
Pupil transportation	451,888	-	-	-	(451,888)
Central services	36,164	-	13,612	-	(22,552)
Operation of non-instructional					
Food service operation	358,545	135,973	197,145	-	(25,427)
Extracurricular activities					
Academic and subject oriented	54,427	-	-	-	(54,427)
Sports oriented	152,261	37,119	-	-	(115,142)
Co-curricular	54,722	-	-	-	(54,722)
Interest	8,516	-	-	-	(8,516)
Totals	<u>\$ 12,000,838</u>	<u>\$ 487,079</u>	<u>\$ 1,092,017</u>	<u>\$ 17,920</u>	<u>\$ (10,403,822)</u>
General revenues					
Property taxes levied for:					
General purpose					5,443,273
Capital improvements					257,526
Grants and entitlements not restricted to specific purposes					3,574,961
Investment earnings					49,175
Miscellaneous					80,348
Total general revenues					<u>9,405,283</u>
Change in net assets					(998,539)
Net assets at beginning of year					6,684,993
Net assets at end of year					<u>\$ 5,686,454</u>

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash	\$ 409,371	\$ 544,857	\$ 954,228
Receivables, net of allowance			
Taxes, current	3,854,851	411,712	4,266,563
Taxes, delinquent	469,052	28,868	497,920
Income tax	613,336	-	613,336
Interfund receivable	102,722	-	102,722
Inventories and supplies	-	5,759	5,759
Total assets and other debits	\$ 5,449,332	\$ 991,196	\$ 6,440,528
Liabilities and fund balances			
Liabilities			
Accounts and contracts payable	\$ 49,849	\$ 12,471	\$ 62,320
Accrued wages and benefits	1,025,397	147,963	1,173,360
Due to other governments	141,276	11,815	153,091
Interfund payable	-	102,722	102,722
Deferred revenue	3,951,000	396,240	4,347,240
Compensated absences payable	234,100	-	234,100
Total liabilities	\$ 5,401,622	\$ 671,211	\$ 6,072,833
Fund balances			
Reserved for property taxes	372,903	44,340	417,243
Reserved for encumbrances	179,032	91,181	270,213
Unreserved, reported in			
General Fund	(504,225)	-	(504,225)
Special Revenue Funds	-	(64,173)	(64,173)
Capital Projects Funds	-	248,637	248,637
Total fund balances	\$ 47,710	\$ 319,985	\$ 367,695
Total liabilities and fund balances	\$ 5,449,332	\$ 991,196	\$ 6,440,528

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2004

Total governmental funds balances	\$	367,695
<p>Amount reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		6,507,991
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		497,920
An 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.		(307,783)
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.		(96,899)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(967,454)
Capital leases		(252,608)
Bonds payable and related accrued interest		(62,408)
		(1,282,570)
Net assets of governmental activities	\$	5,686,454

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,314,448	\$ 413,428	\$ 5,727,876
Tuition and fees	313,987	-	313,987
Interest	48,127	-	48,127
Intergovernmental	3,636,451	1,048,447	4,684,898
Charges for services	-	135,973	135,973
Extracurricular	-	37,119	37,119
Other	35,174	45,174	80,348
Total revenues	<u>9,348,187</u>	<u>1,680,141</u>	<u>11,028,328</u>
Expenditures			
Current			
Instruction			
Regular	5,261,595	399,947	5,661,542
Special	678,789	286,959	965,748
Vocational	81,178	-	81,178
Supporting services			
Pupil	540,671	195,491	736,162
Instructional staff	277,890	35,765	313,655
Board of education	68,573	-	68,573
Administration	1,069,301	93,842	1,163,143
Fiscal services	315,916	7,040	322,956
Business	80,962	8,138	89,100
Operation and maintenance	1,109,034	311,202	1,420,236
Pupil transportation	395,528	-	395,528
Central services	21,742	14,422	36,164
Operation of non-instructional			
Food service operation	-	350,856	350,856
Extracurricular activities	226,003	37,829	263,832
Debt service			
Principal	72,829	38,087	110,916
Interest	8,283	3,494	11,777
Total expenditures	<u>10,208,294</u>	<u>1,783,072</u>	<u>11,991,366</u>
Excess (deficiency) of revenues over expenditures	<u>(860,107)</u>	<u>(102,931)</u>	<u>(963,038)</u>
Other financing sources (uses)			
Transfers-in	221,547	141,876	363,423
Proceeds from capital lease	233,642	-	233,642
Transfers-out	(135,571)	(227,852)	(363,423)
Total other financing sources (uses)	<u>319,618</u>	<u>(85,976)</u>	<u>233,642</u>
Net change in fund balances	(540,489)	(188,907)	(729,396)
Fund balances, beginning of year	588,199	508,892	1,097,091
Fund balances, end of year	<u>\$ 47,710</u>	<u>\$ 319,985</u>	<u>\$ 367,695</u>

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds		\$	(729,396)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.			
	Capital outlay		6,084
	Depreciation expense		(430,470)
			<u>(424,386)</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
	Property taxes		(27,077)
Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			114,177
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
	Compensated absences		349,419
	Pension obligations		7,102
			<u>356,521</u>
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 fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.			(288,378)
Change in net assets of governmental activities		\$	<u>(998,539)</u>

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	General			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Taxes	\$ 5,057,218	\$ 5,057,218	\$ 5,188,423	\$ 131,205
Tuition and fees	509,509	509,509	313,987	(195,522)
Interest	41,622	41,622	52,155	10,533
Intergovernmental	3,393,035	3,481,740	3,636,451	154,711
Other	38,356	38,356	35,174	(3,182)
Total revenues	<u>9,039,740</u>	<u>9,128,445</u>	<u>9,226,190</u>	<u>97,745</u>
Expenditures				
Current				
Instruction				
Regular	4,842,861	4,842,861	5,114,056	(271,195)
Special	798,202	798,202	696,708	101,494
Vocational	78,755	78,755	88,371	(9,616)
Supporting services				
Pupil	623,656	623,656	553,951	69,705
Instructional staff	284,629	284,629	301,527	(16,898)
Board of education	53,129	53,129	70,950	(17,821)
Administration	1,098,162	1,098,162	1,053,899	44,263
Fiscal services	280,638	280,638	277,641	2,997
Business	111,419	111,419	82,773	28,646
Operation and maintenance	1,097,147	1,097,147	1,122,163	(25,016)
Pupil transportation	346,817	346,817	382,244	(35,427)
Central services	29,581	29,581	22,610	6,971
Extracurricular activities				
Academic and subject oriented	32,182	32,182	54,741	(22,559)
Sports oriented	120,483	120,483	118,505	1,978
Co-curricular	43,438	43,438	58,272	(14,834)
Debt service				
Principal	64,502	64,502	59,200	5,302
Interest	-	-	6,749	(6,749)
Total expenditures	<u>9,905,601</u>	<u>9,905,601</u>	<u>10,064,360</u>	<u>(158,759)</u>
Excess (deficiency) of revenues over expenditures	<u>(865,861)</u>	<u>(777,156)</u>	<u>(838,170)</u>	<u>(61,014)</u>
Other financing sources (uses)				
Transfers-in	-	220,320	221,547	1,227
Advances in	-	48,360	83,859	35,499
Transfers-out	(50,000)	(50,000)	(135,571)	(85,571)
Advances out	-	-	(1,722)	(1,722)
Total other financing sources (uses)	<u>(50,000)</u>	<u>218,680</u>	<u>168,113</u>	<u>(50,567)</u>
Net change in fund balances	(915,861)	(558,476)	(670,057)	(111,581)
Prior year encumbrances	143,250	143,250	143,250	-
Fund balances, beginning of year	781,970	781,970	781,970	-
Fund balances, end of year	<u>\$ 9,359</u>	<u>\$ 366,744</u>	<u>\$ 255,163</u>	<u>\$ (111,581)</u>

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF FUND NET ASSETS -
INTERNAL SERVICE FUND
JUNE 30, 2004

	<u>Self Insurance</u>
Assets	
Equity in pooled cash	\$ 4,340
Liabilities	
Claims payable	<u>312,123</u>
Net assets	
Unrestricted	<u><u>\$ (307,783)</u></u>

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
 INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2004

	Self Insurance
Operating revenue	
Charges for services	\$ 1,089,866
Operating expenses	
Purchased services	65,849
Claims	1,313,443
Total operating expenses	1,379,292
Operating loss	(289,426)
Nonoperating revenue	
Interest income	1,048
Change in net assets	(288,378)
Net assets, beginning of year	(19,405)
Net assets, end of year	\$ (307,783)

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Self Insurance
Cash flows from operating activities	
Cash received from interfund services	\$ 1,089,866
Cash payments for goods and services	(65,849)
Cash payments for claims	(1,253,260)
Net cash used in operating activities	(229,243)
Cash flows from investing activities	
Interest income	1,048
Net cash provided by investing activities	1,048
Net decrease in cash and cash equivalents	(228,195)
Cash and cash equivalents, beginning of year	232,535
Cash and cash equivalents, end of year	\$ 4,340
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (289,426)
Adjustments	
Increase in claims payable	60,183
Net cash used for operating activities	\$ (229,243)

The accompanying notes are an integral part of these financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2004

	Student Activities
Assets	
Equity in pooled cash	\$ 35,434
Total assets	35,434
 Liabilities	
Accounts payable	1,935
Due to students	33,499
Total liabilities	\$ 35,434

The accompanying notes are an integral part of these financial statements.

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OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Oberlin City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2003 was 1,115. The District employs 94 certificated and 60 non-certificated employees.

REPORTING ENTITY

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and, 1) the District is able to significantly influence the programs or services performed or provided by the organization; or 2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes.

Blended component units, although legally separated entities are, in substance, part of the District's operations and so data from these units are combined with data of the District. The District has no component units.

The District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council of Governments, the Lorain County Joint Vocational School District, and the Ohio School Council Association which are considered to be jointly governed organizations. These organizations and their relationships with the District are described in more detail in Note 18 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its governmental activities and proprietary fund. Following are the more significant of the District's accounting policies.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

The 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 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 District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the 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 District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds

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

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

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

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District's self insurance fund is classified as an internal service fund. The District has no enterprise funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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 District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

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 net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

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 the fiduciary fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

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.

Expenditures/Expenses

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

E. BUDGETARY PROCESS

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 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 fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the 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 final amended certificate that were 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.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2004 totaled \$ 49,175.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The District has invested in the State Treasurer's investment pool (STAROhio) during the year. 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.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. RESTRICTED ASSETS

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

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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 on the fund financial statements.

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

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

Asset	Estimated Useful Life
Land improvements	20 years
Buildings	50 years
Building improvements	20 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. INTERFUND BALANCES

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

J. 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 District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities from proprietary funds are reported on the proprietary fund 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. Long-term obligations and capital leases are recognized as a liability on the governmental fund financial statements when due.

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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include money for federal grants.

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. FUND BALANCE RESERVES AND DESIGNATIONS

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

N. OPERATING REVENUES AND EXPENSES

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

O. INTERFUND TRANSACTIONS

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.

P. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. INVENTORY

On government wide financial statements, inventories are presented at the lower of cost or market, on a first-in, first-out basis and are expensed when used. Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (continued)

NOTE 3 - DEFICIT FUND EQUITY

At June 30, 2004, the following funds had deficit fund balances.

Non-major Funds:	
E.M.I.S.	\$ (13,104)
Education Technology	(43,464)
D.P.I.A.	(26,285)
Title VIB	(6,470)
Title 1	(46,380)
Title VI	(827)
Preschool	(2,039)
Miscellaneous Federal Grants	(196)
	\$ (138,765)
Internal Service Fund:	
Self Insurance	\$ (307,783)

The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Balances - 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 statements are the following:

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
	General Fund
Budget basis	\$ (670,057)
Adjustments, increase (decrease)	
Revenue accruals	271,780
Expenditure accruals	(142,212)
GAAP basis, as reported	\$ (540,489)

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

At fiscal year end, the District had \$ 200 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

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

At fiscal year end, the carrying amount of the District's deposits was \$ 500,616 and the bank balance was \$ 554,687, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the Oberlin City School District.

Investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

The District has invested funds in STAROhio during the year. At year end, the District's investment in STAROhio was \$ 493,186. STAROhio is an investment pool managed by the State Treasurer's Office that 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.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 994,002	\$ -
Cash on hand	(200)	-
Investment in State Treasurer's Investment Pool	(493,186)	493,186
GASB Statement No. 3	\$ 500,616	\$ 493,186

NOTE 6 - 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 distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received 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 year 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.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 6 - PROPERTY TAXES (continued)

The School District receives property taxes from Lorain County. The County Auditor periodically advances 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 were 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 \$ 372,903 in the General Fund, \$ 29,513 in the Education Technology Fund, and \$ 14,827 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$ 324,361 in the General Fund, \$ 15,189 in the Education Technology Fund, \$ 30,191 in the Capital Projects Fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	%	Amount	%
Agricultural Residential				
Real Estate	\$ 107,281,670	69.94 %	\$ 124,047,130	72.48 %
Other Commercial	32,639,940	21.28	33,758,480	19.73
Public Utility Tangible	4,435,220	2.89	4,378,770	2.56
Tangible Personal Property	9,029,840	5.89	8,953,880	5.23
	<u>\$ 153,386,670</u>	<u>100.00 %</u>	<u>\$ 171,138,260</u>	<u>100.00 %</u>
 Tax Rate per \$ 1,000 of Assessed Valuation:	 <u>66.42</u>		 <u>68.42</u>	

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, income taxes and intergovernmental revenue. All receivables are considered substantially 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

NOTE 8 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance June 30, 2003	Additions	Disposals	Balance June 30, 2004
Nondepreciable capital assets				
Land	\$ 2,279,070	\$ -	\$ -	\$ 2,279,070
Depreciable capital assets				
Land improvements	1,114,287	-	-	1,114,287
Buildings and improvements	12,476,340	-	-	12,476,340
Furniture and equipment	773,798	233,642	29,264	978,176
Vehicles	555,955	6,084	-	562,039
Total capital assets being depreciated	<u>14,920,380</u>	<u>239,726</u>	<u>29,264</u>	<u>15,130,842</u>
Less accumulated depreciation				
Land improvements	750,674	48,642	-	799,316
Buildings and improvements	8,797,830	289,741	-	9,087,571
Furniture and equipment	473,781	61,227	29,264	505,744
Vehicles	478,430	30,860	-	509,290
Total accumulated depreciation	<u>10,500,715</u>	<u>430,470</u>	<u>29,264</u>	<u>10,901,921</u>
Depreciable capital assets, net of accumulated depreciation	<u>4,419,665</u>	<u>(190,744)</u>	<u>-</u>	<u>4,228,921</u>
Governmental activities capital assets, net	<u>\$ 6,698,735</u>	<u>\$ (190,744)</u>	<u>\$ -</u>	<u>\$ 6,507,991</u>

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (continued)

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	383,193
Supporting services		
Board of education		11,372
Administration		3,484
Operation and maintenance of plant		225
Pupil transportation		30,860
Operation of non-instructional services		
Food service		246
Extracurricular activities		
Sports oriented		1,090
Total depreciation expense	\$	<u>430,470</u>

NOTE 9 - INTERFUND ACTIVITY

On the fund financial statements at June 30, 2004, interfund balances consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
Major Fund:		
General Fund	\$ 102,722	\$ -
Non-major Funds:		
Education Technology	-	101,000
Title V	-	158
Title II	-	400
Miscellaneous Federal Grants	-	1,164
Total Non-major Funds	-	102,722
	<u>\$ 102,722</u>	<u>\$ 102,722</u>

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue Funds.

During the year ended June 30, 2004, the General fund transferred \$ 135,571 to the nonmajor governmental funds to provide for the payment of expenditures. Transfers from the nonmajor governmental funds were to close inactive programs.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District contracted with the Hartford Insurance Company for property insurance. Professional liability is covered by the Ohio School Plan with a \$ 2,000,000 umbrella and a \$ 3,000,000 aggregate limit. Vehicles are covered by the Ohio School Plan Company. Automobile liability has a \$ 1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past several years.

Public officials bonds of \$ 20,000 each are maintained for the Superintendent, Board Members, Principals, Assistant Treasurer, and Athletic Director, and bonds of \$ 2,000 each for the Cafeteria Supervisor and the Confidential Secretary to the Treasurer through Traveler's Insurance Company. A public official bond in the amount of \$ 50,000 is maintained for the Treasurer, also through the Traveler's insurance Company.

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The District has contracted with Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their dependents. The LEEP is a shared risk pool comprised of certain school districts that provide public education within Lorain County.

The District pays monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for the employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$ 165,000 per participant.

Premium contributions are determined annually based on the claims experience of the individual district. Premiums can be increased and decreased by up to 20% of the prior year's contribution. Member districts may become liable for additional contributions to fund the liability of the pool. Upon termination, the terminating district would be liable for all outstanding claims beyond its individual account balance.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 10 - RISK MANAGEMENT (continued)

The claim liability of \$ 312,123 reported at June 30, 2004 was estimated by LERC and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related 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 expense. Changes in the balance of claims liability during the years ended June 30, 2004 and 2003 are summarized below. Incurred claims and claims payments are not segregated between current and prior year's claims due to the impracticability of obtaining such information.

	June 30, 2004	June 30, 2003
Unpaid claims, beginning of year	\$ 251,940	\$ 149,017
Incurred claims	1,313,443	1,094,740
Claims payments	(1,253,260)	(991,817)
Unpaid claims, end of year	\$ 312,123	\$ 251,940

Life insurance is through the Ohio Educational Employees Insurance Trust. The life insurance is term life with a limit of \$ 45,000 for classified employees and \$ 50,000 for certified employees through UNUM Life Insurance Company of America.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Oberlin City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System 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 SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Oberlin City District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund obligations. For fiscal year 2003, 8.17% 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 statutory maximum amounts, by the SERS' Retirement Board. The Oberlin City District's contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were \$ 129,373, \$ 113,680, and \$ 77,610, respectively. The full amount has been contributed for 2003 and 2002. For 2004, \$ 88,100 (68%) has been contributed. \$ 41,273 represents the unpaid contribution for fiscal year 2004.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Oberlin City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a publicly available, stand-alone financial report. Copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, Ohio 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% 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members 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 District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, 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 the 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 Oberlin City School District's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$ 678,094, \$ 703,393, and \$ 495,357, respectively. For 2004, \$ 630,900 (93%) has been contributed. The full amount has been contributed for 2003 and 2002.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 54,100 for fiscal year 2004.

STRS Ohio 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 Ohio 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 premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below Federal poverty levels. Premiums are reduced by 50% for those who apply.

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 .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 District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$ 68,160.

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 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.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (continued)

NOTE 13 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Amounts Due In One Year
Bonds payable	\$ 118,400	\$ -	\$ 59,200	\$ 59,200	\$ 59,200
Capital leases	70,682	233,642	51,716	252,608	73,706
Compensated absences	1,552,511	84,730	435,687	1,201,554	251,263
	<u>\$ 1,741,593</u>	<u>\$ 318,372</u>	<u>\$ 546,603</u>	<u>\$ 1,513,362</u>	<u>\$ 384,169</u>

Principal and interest requirements to retire bonds payable outstanding at June 30, 2004, were as follows:

Year ending June 30,	Principal	Interest	Total
2005	<u>\$ 59,200</u>	<u>\$ 3,374</u>	<u>\$ 62,574</u>

Bonds payable will be repaid from the Debt Service Fund. The capital lease obligations will be repaid from the General Fund and the Capital Improvements Fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

NOTE 14 - BONDS PAYABLE

Bonds payable at year end consisted of:

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004
General obligation bonds				
Energy conservation (1996)				
5.70% through 2004	118,400	-	59,200	59,200
	<u>\$ 118,400</u>	<u>\$ -</u>	<u>\$ 59,200</u>	<u>\$ 59,200</u>

The original amount of bonds issued in 1996 was \$ 532,790.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 15 – CAPITAL LEASE

The District has entered into lease agreements for financing certain communications equipment and certain copier equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of June 30, 2004.

The assets acquired through capital leases are as follows:

Asset	Cost	Accumulated Depreciation	Net
Communications equipment	\$ 175,706	\$ (158,135)	\$ 17,571
Copier equipment	233,642	(23,364)	210,278
	\$ 409,348	\$ (181,499)	\$ 227,849

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

	Year ending June 30,	Amount
	2005	\$ 82,606
	2006	51,420
	2007	51,420
	2008	51,420
	2009	38,565
Total minimum lease payments		275,431
Less amount representing interest		22,823
Net present value of minimum lease payments		\$ 252,608

NOTE 16 – OPERATING LEASE

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2004, expenditures for operating leases totaled \$ 46,236.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

	Year ending June 30,	Amount
	2005	\$ 46,236
	2006	14,651
Total minimum lease payments		\$ 60,887

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 17 - SET-ASIDES

The 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. These amounts must be carried forward and used for the same purposes in future years. The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbook	Capital Maintenance
Balance, July 1, 2003	\$ (425,249)	\$ -
Required set aside	158,360	158,360
Offset credits	-	-
Qualifying expenditures	(171,731)	(283,108)
Balance June 30, 2004	\$ (438,620)	\$ (124,748)
 Carry forward at June 30, 2004	 \$ (438,620)	 \$ -

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 171,731 and \$ 283,108, respectively, which exceeded the required set-aside and the reserve balance. Textbook expenditures have exceeded statutory requirements by \$ 438,620 which may be used as offset credits for future years' set aside requirements. Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future years.

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004, the District paid \$ 147,877 to LEECA.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 18 - JOINTLY GOVERNED ORGANIZATION (continued)

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization among thirteen districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, food service and insurance. Each member provided operating resources to LERC on a per pupil or usage charge except for insurance. The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004 the District paid \$ 1,221,893 to LERC, which included payments for insurance.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide vocational and special education needs of the students. The Board of the Lorain County Joint Vocational School District is comprised of representatives from each participating school district and is responsible for approving its own budgets, appointing personnel, accounting, and financing related activities.

Each School District's control is limited to its representation on the board. The Oberlin City School District's students may attend the Lorain County Joint Vocational School District. Financial information can be obtained by contacting the Lorain County Joint Vocational School District, 15181 State Route 58 South, Oberlin, Ohio 44074.

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council is a jointly governed organization among eighty-three districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service, and insurance. Each member provided operating resources to Ohio Schools Council on a per pupil or actual usage charge except for insurance.

The Ohio Schools Council assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. Ohio Schools council is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Executive Secretary/Treasurer, Ohio Schools Council, 6133 Rockside Road, Suite 10, Independence, Ohio 44131. During the year ended June 30, 2004 the district paid approximately \$ 650 to the Ohio Schools Council.

NOTE 19- SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004
(continued)

NOTE 20- CONTINGENCIES

The 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 District at June 30, 2004.

NOTE 21- LEGAL COMPLIANCE

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. The following funds had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control at June 30, 2004:

Fund	Appropriations	Expenditures plus Encumbrances	Variance
General	\$9,955,601	\$10,201,653	\$(246,052)
Special Levy	172,000	197,808	(25,808)
District Managed Activity	25,000	38,539	(13,539)
Management Information System	5,138	100,900	(95,762)
Entry Year Programs	0	3,300	(3,300)
Disadvantaged Pupil Impact Aid	224,953	287,864	(62,911)
Instructional Material Subsidy	7,251	47,061	(39,810)
Ohio Reads	24,840	27,441	(2,601)
Miscellaneous State Grant	927	1,207	(280)
Title 1 Disadvantaged Children	227,990	231,315	(3,325)
Title V Innovative Education Program	3,361	9,807	(6,446)
Telecommunication Act Grant	890	3,000	(2,110)
Improving Teacher Quality	79,251	86,934	(7,683)
Miscellaneous Federal Grants	3,700	16,808	(13,108)
Permanent Improvement	300,000	370,200	(70,200)
Capital Projects – HB 426	60,522	103,880	(43,358)
Special Enterprise	0	1,184	(1,184)
Employee Benefits Self-Insurance	300,000	1,410,841	(1,110,841)

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$17,420	\$0	\$17,420
School Breakfast Program	05PU-2003	10.553	7,488	0	7,488	0
School Breakfast Program	05PU-2004	10.553	24,871	0	24,871	0
Subtotal School Breakfast Program			32,359	0	32,359	0
National School Lunch Program	LLP4-2003	10.555	34,625	0	34,625	0
National School Lunch Program	LLP4-2004	10.555	104,185	0	104,185	0
Subtotal National School Lunch Program			138,810	0	138,810	0
Total U.S. Department of Agriculture - Nutrition Cluster			171,169	17,420	171,169	17,420
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A	C1S1-2003	84.010	6,433	0	0	0
Title I, Part A	C1S1-2004	84.010	218,143	0	221,905	0
Subtotal Title I, Part A			224,576	0	221,905	0
Special Education Cluster:						
IDEA Part B (Title VI-B)	6BSF-2003	84.027	0	0	4,985	0
IDEA Part B (Title VI-B)	6BSF-2004	84.027	165,943	0	159,100	0
Subtotal IDEA Part B			165,943	0	164,085	0
Preschool Disability Grant	PGS1-2000	84.173	(75)	0	0	0
Preschool Disability Grant	PGS1-2004	84.173	9,048	0	8,974	0
Subtotal Preschool Disability Grant			8,973	0	8,974	0
Total Special Education Cluster			174,916	0	173,059	0
Drug Free School Grant	DRS1-2004	84.186	7,751	0	7,751	0
Title V - Innovative Programs	C2S1-2001	84.298	(699)	0	0	0
Title V - Innovative Programs	C2S1-2003	84.298	4,161	0	1,979	0
Title V - Innovative Programs	C2S1-2004	84.298	6,707	0	3,512	0
Total Title V - Innovative Programs			10,169	0	5,491	0
Title II, Part D - Education Technology	TJS1-2003	84.318	4,123	0	1,893	0
Title II, Part D - Education Technology	TJS1-2004	84.318	5,396	0	4,074	0
Total Title II, Part D - Education Technology			9,519	0	5,967	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2003	84.367	7,488	0	3,347	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2004	84.367	79,046	0	74,446	0
Total Title II, Part A - Teacher and Principal Training and Recruiting			86,534	0	77,793	0
Assistive Technology Infusion Grants	ATS4-2002	84.352	0	0	7,001	0
Total Assistive Technology Infusion Grants			0	0	7,001	0
Total U.S. Department of Education			513,465	0	498,967	0
Total Federal Financial Assistance			684,634	17,420	670,136	17,420

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

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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 consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – NEGATIVE RECEIPTS

The District returned receipts of \$75 from the Preschool Disability Grant and \$699 from the Title V – Innovative Programs Grant because all of the grant funds had not been expended within the allowable time period.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Oberlin City School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 18, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 18, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated May 18, 2005, we reported other matters related to noncompliance we deemed immaterial.

Oberlin City School District
Lorain County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 18, 2005



Auditor of State Betty Montgomery

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

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

Compliance

We have audited the compliance of Oberlin 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 apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Oberlin City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management 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 Government's internal control over compliance with requirements that could directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 18, 2005

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (84.027 and 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

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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

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

Finding Number	2004-001
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Expenditures Exceeding Appropriations

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. The following funds had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control at June 30, 2004:

Fund	Appropriations	Expenditures plus Encumbrances	Variance
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Special Enterprise	0	1,184	(1,184)
Employee Benefits Self-Insurance	300,000	1,410,841	(1,110,841)

Monitoring annual appropriations is vital for maintaining sound budgetary practices. By not monitoring the appropriations, expenditures plus encumbrances could result in funds exceeding the total available fund balance. It should be noted that these occurrences of noncompliance with this Revised Code section resulted in a fifty-six percent noncompliance rate for all District funds.

We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally to be budgeted, at the legal level of control (fund level), to maintain compliance with the above requirement. In addition, all appropriation amendments should be certified to the county budget commission after approval by the Board of Education.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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800-282-0370
Facsimile 614-466-4490

**OBERLIN CITY SCHOOL DISTRICT
LORAIN 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
JUNE 16, 2005**