REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



Auditor of State Betty Montgomery

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Area Vocational School District Stark County 6808 Richville Drive SW Massillon, Ohio 44646

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Area Vocational School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Area Vocational School District, Stark County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof 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 December 12, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702 Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001 www.auditor.state.oh.us Stark County Area Vocational School District Stark County Independent Accountants' Report Page 2

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, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery Auditor of State

December 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

The discussion and analysis of the Stark County Area Vocational School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$547,181 which represents a 4.51% increase from 2004.
- General revenues accounted for \$6,586,794 in revenue or 82.71% of all revenues. The District received \$231,245 in proceeds from reimbursement of insurance claims, which is presented as an extraordinary item. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,376,600 or 17.29% of total revenues of \$8,194,639.
- The District had \$7,647,458 in expenses related to governmental activities; \$1,376,600 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,586,794 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,367,520 in revenues and \$7,187,894 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$410,871 from \$6,937,709 to \$7,348,580.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

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

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets on pages 21-22 of this report. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-45 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Governmental Activities 2005	Governmental Activities 2004
Assets		
Current and other assets	\$ 10,568,979	\$ 10,045,468
Capital assets, net	5,921,879	5,779,182
Total assets	16,490,858	15,824,650
Liabilities		
Current liabilities	2,956,730	2,869,083
Long-term liabilities	851,541	820,161
Total liabilities	3,808,271	3,689,244
<u>Net Assets</u>		
Invested in capital		
assets, net of related debt	5,892,072	5,737,262
Restricted	19,089	15,127
Unrestricted	6,771,426	6,383,017
Total net assets	\$ 12,682,587	<u>\$ 12,135,406</u>

Net Assets

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$12,682,587. Of this total, \$6,771,426 is unrestricted in use.

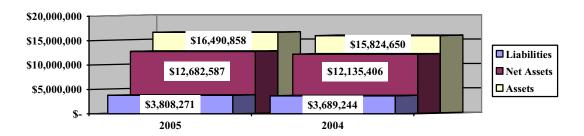
At year-end, capital assets represented 35.91% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$5,892,072. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$19,089 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,771,426 may be used to meet the District's ongoing obligations to the students and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

The graph below illustrates the District's governmental activities assets, liabilities and net assets at June 30, 2005 and 2004.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 960,394	\$ 1,177,298
Operating grants and contributions	416,206	383,045
General revenues:		
Property taxes	2,201,576	2,066,836
Grants and entitlements	4,159,791	4,248,951
Investment earnings	197,127	68,943
Gain on sale of capital assets	-	50
Other	28,300	25,736
Extraordinary item	231,245	
Total revenues	8,194,639	7,970,859

Change in Net Assets

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Expenses		
Program expenses:		
Instruction:		
Regular	\$ 669,934	\$ 372,783
Special	77,791	85,658
Vocational	4,015,070	4,005,729
Support services:		
Pupil	630,033	659,643
Instructional staff	394,403	382,867
Board of education	27,320	23,634
Administration	274,428	270,500
Fiscal	204,780	204,762
Business	4,638	4,179
Operations and maintenance	1,039,972	790,617
Central	64,238	79,992
Food service operations	207,319	181,690
Extracurricular activities	34,616	37,502
Interest and fiscal charges	2,916	3,844
Total expenses	7,647,458	7,103,400
Change in net assets	547,181	867,459
Net assets at beginning of year	12,135,406	11,267,947
Net assets at end of year	<u>\$ 12,682,587</u>	<u>\$ 12,135,406</u>

Governmental Activities

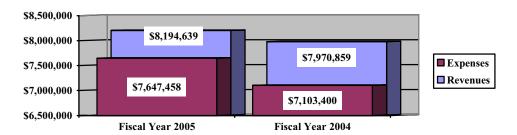
Net assets of the District's governmental activities increased \$547,181. Total governmental expenses of \$7,647,458 were offset by program revenues of \$1,376,600 and general revenues of \$6,586,794. Program revenues supported 18.00% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 77.63% of total governmental revenue.

The largest expense of the District is for instructional programs, primarily vocational instruction. Instruction expenses totaled \$4,762,795 or 62.28% of total governmental expenses for fiscal 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



Governmental Activities - Revenues and Expenses

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

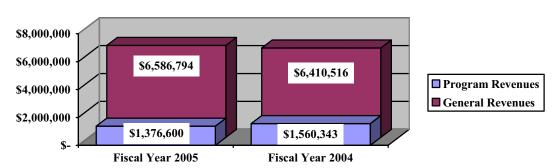
Governmental Activities

	otal Cost of Services 2005	N	let Cost of Services 2005	To	otal Cost of Services 2004	N	Vet Cost of Services 2004
Program expenses							
Instruction:							
Regular	\$ 669,934	\$	664,458	\$	372,783	\$	368,390
Special	77,791		40,622		85,658		46,416
Vocational	4,015,070		3,120,363		4,005,729		2,955,765
Support services:							
Pupil	630,033		565,637		659,643		574,121
Instructional staff	394,403		374,635		382,867		354,093
Board of education	27,320		27,320		23,634		23,634
Administration	274,428		269,428		270,500		255,234
Fiscal	204,780		204,780		204,762		204,762
Business	4,638		2,160		4,179		4,179
Operations and maintenance	1,039,972		907,934		790,617		645,677
Central	64,238		24,069		79,992		54,856
Food service operations	207,319		31,920		181,690		14,584
Extracurricular activities	34,616		34,616		37,502		37,502
Interest and fiscal charges	 2,916		2,916		3,844	_	3,844
Total expenses	\$ 7,647,458	\$	6,270,858	\$	7,103,400	\$	5,543,057

The dependence upon tax and other general revenues for governmental activities is apparent, 80.32% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.00%. The District's intergovernmental revenues, as a whole, are by far the primary support for District's students.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



Governmental Activities - General and Program Revenues

The District's Funds

The District's governmental funds reported a combined fund balance of \$7,358,832, which is higher than last year's total of \$6,981,588. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General Other Governmental	\$ 7,348,580 10,252	\$ 6,937,709 <u>43,879</u>	\$ 410,871 (33,627)	5.92 % (76.64) %
Total	<u>\$ 7,358,832</u>	\$ 6,981,588	\$ 377,244	5.40 %

General Fund

The District's general fund balance increased \$410,871 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. Revenues exceed expenditures for fiscal year 2005 by \$203,184. The decrease in expenditures is due to the facilities acquisition and construction costs related to the new building addition, which totaled \$2,592,050 in fiscal 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

	2005 Amount	2004 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	\$ 2,214,837	\$ 2,084,060	\$ 130,777	6.28 %
Earnings on investments	180,982	55,478	125,504	226.22 %
Intergovernmental	4,159,791	4,248,951	(89,160)	(2.10) %
Other revenues	811,910	1,022,760	(210,850)	(20.62) %
Total	\$ 7,367,520	\$ 7,411,249	<u>\$ (43,729)</u>	(0.59) %
<u>Expenditures</u>				
Instruction	\$ 4,443,398	\$ 4,190,525	\$ 252,873	6.03 %
Support services	2,570,404	2,218,847	351,557	15.84 %
Extracurricular activities	34,616	37,502	(2,886)	(7.70) %
Facilities acquisition and construction	100,889	2,592,050	(2,491,161)	(96.11) %
Debt service	15,029	15,029		- %
Total	\$ 7,164,336	<u>\$ 9,053,953</u>	<u>\$ (1,889,617)</u>	(20.87) %

The increase in earnings on investments is due primarily to an increase in interest rates and additional funds invested by the District during fiscal year 2005. The increase in support services is primarily due to the staffing changes which occurred between 2004 and 2005. The decrease in facilities acquisition and construction expenditure was due to the construction of a new auditorium, science and math center, warehouse and a science lab utilized for professional development during 2004.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,994,225 and final budgeted revenues and other financing sources were \$7,984,774. Actual revenues and other financing sources for fiscal 2005 was \$7,876,243. This represents a \$108,531 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$8,152,323, which were increased to \$8,156,324 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$7,748,339, which was lower than the final budget appropriations by \$407,985.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$5,921,879 invested in land, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2005 balances compared to 2004:

Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities			
	2005	2004		
Land	\$ 144,865	\$ 144,865		
Building and improvements	4,985,938	4,974,061		
Furniture and equipment	772,903	653,108		
Vehicles	18,173	7,148		
Total	<u>\$ 5,921,879</u>	\$ 5,779,182		

The overall increase in capital assets of \$142,697 is due to capital outlays of \$423,624 exceeding depreciation expense of \$256,079 and disposals of \$24,848 (net of accumulated depreciation) in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$29,807 in capital lease obligations outstanding. Of this total, \$13,119 is due within one year and \$16,688 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Capital lease obligations	\$ 29,807	<u>\$ 41,920</u>
Total	<u>\$ 29,807</u>	\$ 41,920

See Note 10 to the basic financial statements for additional information on the District's debt administration.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

Current Financial Related Activities

The District's current financial forecast supports financial stability over the next five years. The greatest challenge in maintaining a stable financial forecast is the uncertainty of future state funding. The District relies on the state for approximately 55% of the general operating revenues. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed additional revenue growth toward the support of school districts with little property tax wealth. At this time, the District is unable to determine what effect, if any, this decision will have on future State funding.

The District teamed up with the Stark County Educational Service Center to build a 20,000 square foot auditorium/professional development center in fiscal year 2004. The estimated \$3,000,000 facility was built with all general fund monies.

There are currently no anticipated needs for any additional operating levies if the assumptions listed in the five-year forecast prove to be correct.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Bartholomew, Treasurer, Stark County Area Vocational School District, 6805 Richville Drive SW, Massillon, Ohio 44646-9433.

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STATEMENT OF NET ASSETS JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 7,432,708
Receivables:	
Taxes	2,320,645
Accounts	249
Intergovernmental.	731,233
Accrued interest.	49,550
Prepayments	27,525
Materials and supplies inventory	7,069
Capital assets:	
Land	144,865
Depreciable capital assets, net	5,777,014
Total capital assets, net	5,921,879
Total assets.	16,490,858
Liabilities:	
Accounts payable.	132,746
Accrued wages and benefits	645,687
Pension obligation payable.	88,978
Intergovernmental payable	25,224
Deferred revenue	2,064,095
Long-term liabilities:	
Due within one year.	104,114
Due within more than one year	747,427
Total liabilities	3,808,271
Net Assets:	
Invested in capital assets, net	
of related debt.	5,892,072
Restricted for:	
Locally funded programs	66
State funded programs	9,781
Federally funded programs.	9,242
Unrestricted	6,771,426
Total net assets	\$ 12,682,587

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2005

				Program	Revo	enues	1	Net (Expense) Revenue and Changes in Net Assets
		Expenses		Charges for Services and Sales		Operating Grants and Contributions		Governmental Activities
Governmental activities: Instruction:								
	\$	660.024	\$	5,476	\$		\$	$(\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}\mathcal{L}$
Regular	Э	669,934	Ф	5,470	Э	- 27 160	Ф	(664,458)
Special		77,791		-		37,169		(40,622)
		4,015,070		699,490		195,217		(3,120,363)
Support services:		(20.022				(1.20)		(5(5(27)))
Pupil		630,033		-		64,396		(565,637)
Instructional staff		394,403		-		19,768		(374,635)
Board of education		27,320		-		-		(27,320)
Administration		274,428		-		5,000		(269,428)
Fiscal		204,780		-		-		(204,780)
Business		4,638		-		2,478		(2,160)
Operations and maintenance		1,039,972		132,038		-		(907,934)
Central		64,238		-		40,169		(24,069)
Food service operations		207,319		123,390		52,009		(31,920)
Extracurricular activities.		34,616		-		-		(34,616)
Interest and fiscal charges		2,916				-		(2,916)
Total governmental activities	\$	7,647,458	\$	960,394	\$	416,206		(6,270,858)

General Revenues:

Property taxes levied for: General purposes	2,201,576
Grants and entitlements not restricted to specific programs	4,159,791 197,127 28,300
Total general revenues	 6,586,794
Extraordinary item: Reimbursement of insurance claims	 231,245
Total general revenues and extraordinary item	6,818,039
Change in net assets	547,181
Net assets at beginning of year	 12,135,406
Net assets at end of year	\$ 12,682,587

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

		General		Other Governmental Funds		Total overnmental Funds
Assets:						
Equity in pooled cash	¢	7 276 626	¢	15(072	¢	7 422 709
and cash equivalents	\$	7,276,636	\$	156,072	\$	7,432,708
Receivables:		2 220 645				2 220 645
		2,320,645 249		-		2,320,645 249
		673,885		57 249		731,233
Intergovernmental		,		57,348		49,550
Accrued interest		49,373		177		,
		89,614		-		89,614
Prepayments		27,525		-		27,525
Materials and supplies inventory	•	-		7,069	<u>_</u>	7,069
Total assets	\$	10,437,927	\$	220,666	\$	10,658,593
Liabilities:						
	\$	92,190	\$	40,556	\$	132,746
Accounts payable	\$	624,179	Ф	,	\$	645,687
		· · · · ·		21,508		,
Compensated absences payable		66,196 70.040		-		66,196 88.078
Pension obligation payable.		79,049		9,929		88,978
Intergovernmental payable.		24,045		1,179		25,224
Interfund payable.		-		89,614		89,614
Deferred revenue		2,203,688		47,628		2,251,316
Total liabilities		3,089,347		210,414		3,299,761
Even d Dalamana						
Fund Balances: Reserved for encumbrances		220.042		6 921		225 977
Reserved for materials and		229,043		6,834		235,877
				7,069		7,069
supplies inventory.		-		7,009		27,525
Reserved for prepayments		27,525		-		27,525
for appropriation		146,298				146,298
Unreserved, undesignated (deficit), reported in:		140,298		-		140,298
General fund		6,945,714				6,945,714
Special revenue funds		0,945,714		(3,651)		
Total fund balances		7,348,580		10,252		(3,651)
		/,340,380		10,232		7,358,832
Total liabilities and fund balances	\$	10,437,927	\$	220,666	\$	10,658,593

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2005

Total governmental fund balances			\$ 7,358,832
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial			
resources and therefore are not reported in the funds.			5,921,879
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.			
Taxes	\$	110,252	
Accrued interest	Ψ	29,341	
Intergovernmental revenue		47,628	
Total			187,221
Long-term liabilities are not due and payable in the current			
period and therefore are not reported in the funds.			
Compensated absences		755,538	
Capital lease obligation		29,807	
Total			 (785,345)
Net assets of governmental activities			\$ 12,682,587

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		General	Other Governmental Funds		Total Governmental Funds	
Revenues:		General		T unus		T unus
From local sources:						
Taxes	\$	2,214,837	\$	_	\$	2,214,837
Tuition	Ψ	490,232	Ŷ	40,647	Ŷ	530,879
Charges for services.				123,390		123,390
Earnings on investments.		180,982		125,590		181,159
Classroom materials and fees.				9,193		9,193
Customer service revenue.		164,894		,,195		164,894
Other local revenues.		156,784		3,554		160,338
Intergovernmental - Intermediate		7,048		1,000		8,048
		4,152,743		89,093		4,241,836
Intergovernmental - State		4,132,745				
Intergovernmental - Federal		-		307,471		307,471
Total revenue		7,367,520		574,525		7,942,045
Expenditures:						
Current:						
Instruction:						
Regular		644,768		4,682		649,450
Special		35,087		39,951		75,038
Vocational.		3,763,543		235,883		3,999,426
Support services:						
Pupil		612,184		71,209		683,393
Instructional staff		377,861		21,570		399,431
Board of education		25,629		-		25,629
Administration.		280,736		4,964		285,700
Fiscal		203,128		-		203,128
Business		1,589		3,049		4,638
Operations and maintenance		1,050,268		-		1,050,268
Central.		19,009		45,229		64,238
Food service operations		-		205,173		205,173
Extracurricular activities		34,616				34,616
Facilities acquisition and construction		100,889		-		100,889
Debt service:		;				,
Principal retirement		12,113		-		12,113
Interest and fiscal charges		2,916		-		2,916
Total expenditures		7,164,336		631,710		7,796,046
		,,101,000				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Excess of revenues over (under)		202.104				145.000
expenditures		203,184		(57,185)		145,999
Other financing sources (uses):						
Transfers in		-		23,721		23,721
Transfers (out).		(23,558)		(163)		(23,721)
Total other financing sources (uses)		(23,558)		23,558		-
Extraordinary item:						
Reimbursement of insurance claim		231,245		-		231,245
Net change in fund balances		410,871		(33,627)		377,244
-		- ,		× - 2)		- 7
Fund balances		6 027 700		12 070		6 001 500
at beginning of year (restated)	<u>ф</u>	6,937,709	<i>•</i>	43,879	Ø	6,981,588
Fund balances at end of year	\$	7,348,580	\$	10,252	\$	7,358,832

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds		\$ 377,244
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions Current year depreciation	423,624	
Total		167,545
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(24,848)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Taxes Earnings on investments Intergovernmental	 (13,261) 15,968 18,642	
Total		21,349
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		12,113
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	-	(6,222)
Change in net assets of governmental activities	-	\$ 547,181

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts					Variance with Final Budget Positive		
		Original		Final		Actual		legative)
Revenues:		originar		1 11141		Tittui	((cguire)
From local sources:								
Taxes	\$	2,206,022	\$	2,203,414	\$	2,220,808	\$	17,394
Tuition		525,710		525,088		525,088		-
Earnings on investments		100,118		100,000		126,150		26,150
Customer service revenue		193,228		193,000		164,915		(28,085)
Other local revenues		157,802		157,615		157,092		(523)
Intergovernmental - Intermediate		6,085		6,078		7,048		970
Intergovernmental - State		4,139,575		4,134,681		4,152,743		18,062
Total revenue		7,328,540		7,319,876		7,353,844		33,968
Expenditures:								
Current:								
Instruction:								
Regular		636,366		636,678		616,328		20,350
Special		43,931		43,953		42,548		1,405
Vocational		4,186,298		4,188,353		4,054,481		133,872
Support services:								
Pupil		655,827		656,148		635,176		20,972
Instructional staff		392,056		392,248		379,711		12,537
Board of education		26,498		26,511		25,664		847
Administration		303,107		303,256		293,563		9,693
Fiscal		222,145		222,254		215,150		7,104
Business		17,158		17,167		16,618		549
Operations and maintenance		1,209,525		1,210,119		1,171,440		38,679
Central		42,070		42,090		40,745		1,345
Extracurricular activities		44,551		44,573		43,148		1,425
Facilities acquisition and construction		110,421		110,475		106,944		3,531
Total expenditures		7,889,953		7,893,825		7,641,516		252,309
Excess of revenues over (under)								
expenditures		(561,413)		(573,949)		(287,672)		286,277
Other financing sources (uses):								
Refund of prior year expenditure		183,870		183,653		184,433		780
Transfers (out)		(24,000)		(24,000)		(23,558)		442
Advances in		250,296		250,000		106,721		(143,279)
Advances (out)		(226,000)		(238,499)		(83,265)		155,234
Reimbursement of insurance claims		231,519		231,245		231,245		-
Total other financing sources (uses)		415,685		402,399		415,576		13,177
Net change in fund balance		(145,728)		(171,550)		127,904		299,454
Fund balance at beginning of year		6,291,113		6,291,113		6,291,113		-
Prior year encumbrances appropriated		524,753		524,753		524,753		-
Fund balance at end of year	\$	6,670,138	\$	6,644,316	\$	6,943,770	\$	299,454

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2005

	Private-Purpose Trust Scholarship			
			A	Igency
Assets: Equity in pooled cash				
and cash equivalents	\$	3,488	\$	27,807
Total assets.		3,488	\$	27,807
Liabilities:				
Due to students			\$	27,807
Total liabilities			\$	27,807
Net Assets:				
Held in trust for scholarships		3,488		
Total net assets	\$	3,488		

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust		
	Scholarship		
Additions: Contributions and donations	\$	8,500	
Deductions: Scholarships awarded		10,244	
Change in net assets		(1,744)	
Net assets at beginning of year		5,232	
Net assets at end of year	\$	3,488	

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Stark County Area Vocational Board of Education was formed on June 30, 1970. Stark County Area Vocational School District (the "District") is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code and is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A vocational school exposes students to job training leading to employment upon graduation from high school. The District includes six member schools: Brown Local, Fairless Local, Louisville City, Minerva Local, Northwest Local, and Tuslaw Local. During fiscal 2001, the District entered into an agreement to provide vocational education programs for students of the Perry Local School District. This vocational educational cooperative agreement is effective for 5 years and may be renewed for an additional 5 years if each party agrees.

The District operates under a seven-member Board of Education consisting of 1 member from each member school's board of education, and 1 additional rotating member allowing each member school to have 2 members every 7 years. The District provides educational services as authorized and mandated by state or federal agencies. The District employs 25 non-certified and 64 certified employees to provide services to approximately 609 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "<u>The Financial</u> <u>Reporting Entity</u>" as amended by GASB Statement No. 39, "<u>Determining Whether Certain</u> <u>organizations Are Component Units</u>". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the Stark-Portage Area Computer Consortium (SPARCC), a jointly governed organization, which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five-member executive board, which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

INSURANCE PURCHASING POOL

The Stark County Schools Council of Government (the "Council") is governed by an assembly, which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one-year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services. The Council has a Health Benefits Program, which is a shared risk pool comprised of 15 Stark County school districts.

The Council also sponsors a workers' compensation group rating plan, which is an insurance purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student activities and District agency services.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting

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

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

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

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

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

<u>Deferred Revenue</u> - 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, 2005, but which were levied to finance fiscal year 2006 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets

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

- 1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
- 2. By no later than January 20, the Board-adopted budget is filed with the Stark County Budget Commission for tax rate determination.
- 3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.
- 4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures for all funds, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.
- 5. Any revisions that alter the total fund expenditures must be approved by the Board of Education.
- 6. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.
- 7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. All supplemental appropriations were legally enacted by the Board during fiscal 2005. The amounts reported in the budgetary statement reflect the original and final appropriations approved by the Board of Education during fiscal 2005.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$180,982, which includes \$4,769 assigned from other funds.

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

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

G. Inventory

On government-wide and fund 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 are accounted for using the consumption method.

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

H. Capital Assets

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

	Governmental Activities
Description	Estimated Lives
Buildings and improvements	15 - 50 years
Furniture and equipment Vehicles	5 - 20 years
venicies	6 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "<u>Accounting for Compensated Absences</u>", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2005, the District incurred a transaction that would be classified as an extraordinary item. The District received \$231,245 in proceeds of reimbursement of insurance claims related to hail damage that occurred during the fiscal year.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment <u>Risk Disclosures</u>" and GASB Technical Bulletin 2004-2, "<u>Recognition of Pension and Other</u> Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	 General	No	nmajor_	 Total
Fund Balances, June 30, 2004 GASB Technical Bulletin No. 2004-2	\$ 6,943,311 (5,602)	\$	50,627 (6,748)	\$ 6,993,938 (12,350)
Restated Fund Balance, June 30, 2004	\$ 6,937,709	\$	43,879	\$ 6,981,588

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
Nonmajor Funds	
Career Development	\$ 5,314
Food Service	5,514
Title VI	24
Miscellaneous State Grants	1,139
Drug Free School	536
Improving Teacher Quality	86
Carl D. Perkins	32,687
Miscellaneous Federal Grants	1,035

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - 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 that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. 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 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 to be deposited or invested in the following securities:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

- 2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4. Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6. The State Treasurer's investment pool (STAR Ohio);
- 7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
- 8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$83,759. Based on the criteria described in GASB Statement No. 40, "<u>Deposits and Investment Risk Disclosures</u>", as of June 30, 2005, \$85,881 of the District's bank balance of \$197,184 was exposed to custodial risk as discussed below, while \$111,303 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

	Investment Maturities									
		Balance at		6 months or		7 to 12		13 to 18		19 to 24
Investment type	-	Fair Value		less		months		months		months
STAR Ohio	\$	1,419,753	\$	1,419,753	\$	-	\$	-	\$	-
FHLMC Discount Note		2,481,771		2,481,771		-		-		-
FNMA Discount Note		994,149		994,149		-		-		-
FHLMC		500,000		-		-		-		500,000
FHLB		1,488,856		497,590		991,266		-		-
FNMA		495,715	_		_	495,715	_	-		-
	\$	7,380,244	\$	5,393,263	\$	1,486,981	\$	-	\$	500,000

The weighted average maturity of investments is .38 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAm money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

STAR Ohio	\$ 1,419,753	19.24%
FHLMC Discount Note	2,481,771	33.63%
FNMA Discount Note	994,149	13.47%
FHLMC	500,000	6.77%
FHLB	1,488,856	20.17%
FNMA	 495,715	<u>6.72</u> %
	\$ 7,380,244	100.00%

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

Cash and Investments per footnote	
Carrying amount of deposits	\$ 83,759
Investments	 7,380,244
Total	\$ 7,464,003

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Cash and investments per Statement of Net Assets	3	
Governmental activities	\$	7,432,708
Private-purpose trust funds		3,488
Agency funds		27,807
Total	\$	7,464,003

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

Receivable Fund	Payable Fund	 Amount
General	Nonmajor governmental funds	\$ 89,614

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	T	Transfers From								
		Nonmajor								
Transfers to	General	Governmental	Total							
Nonmajor Governmental	23,558	163	23,721							
Total	\$ 23,558	<u>\$ 163</u>	\$ 23,721							

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$146,298 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$152,269 in the general 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

		2004 Secor Half Collecti			t ons	
	_	Amount	Percent	Amount		Percent
Agricultural/residential						
and other real estate	\$	959,776,510	85.69	\$ 1,0	63,541,890	87.61
Public utility personal		50,677,320	4.52		49,431,720	4.07
Tangible personal property		109,556,075	9.79	1	00,929,239	8.32
Total	\$	1,120,009,905	100.00	\$ 1,2	13,902,849	100.00
Tax rate per \$1,000 of assessed valuation	\$	2.00		\$	2.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 2,320,645
Accounts	249
Accrued interest	49,550
Intergovernmental	731,233
Total	\$ 3,101,677

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i> Land	<u>\$ 144,865</u>	<u>\$</u>	<u>\$ </u>	<u>\$ 144,865</u>
Total capital assets, not being depreciated	144,865			144,865
<i>Capital assets, being depreciated:</i> Buildings and improvements Furniture and equipment	9,486,372 1,269,535	202,765 201,859	- (74,805)	9,689,137 1,396,589
Vehicles	59,795	19,000		78,795
Total capital assets, being depreciated	10,815,702	423,624	(74,805)	11,164,521
Less: accumulated depreciation				
Buildings and improvements	(4,512,311)	(190,888)	-	(4,703,199)
Furniture and equipment	(616,427)	(57,216)	49,957	(623,686)
Vehicles	(52,647)	(7,975)		(60,622)
Total accumulated depreciation	(5,181,385)	(256,079)	49,957	(5,387,507)
Governmental activities capital assets, net	\$ 5,779,182	<u>\$ 167,545</u>	<u>\$ (24,848)</u>	\$ 5,921,879

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Vocational	\$ 115,510
Support Sorvices	
Support Services:	
Pupil	56,504
Instructional staff	8,457
Administration	1,691
Fiscal	1,691
Operations and maintenance	71,503
Food service operations	723
	• • • • • • • • • •
Total depreciation expense	<u>\$ 256,079</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into a capital lease agreement for copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "<u>Accounting for Leases</u>", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the least term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copiers that have been capitalized in the amount of \$61,922. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2005 fiscal year totaled \$12,113 and \$2,916, respectively. These amounts are reported as debt service payments of the general fund on the fund financial statements.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

Fiscal Year Ending June 30,	Amount
2006	\$ 15,029
2007	15,029
2008	2,506
Total minimum lease payments	32,564
Less amount representing interest	(2,757)
Total	\$ 29,807

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>		A	Additions Reductions			Oı	Balance itstanding 06/30/05	Amounts Due in <u>One Year</u>	
Governmental Activities: Compensated absences payable Capital lease obligation	\$	778,241 41,920	\$	122,612	\$	(79,119) (12,113)	\$	821,734 29,807	\$	90,995 13,119
Total long-term obligations, governmental activities	<u>\$</u>	820,161	\$	122,612	\$	(91,232)	\$	851,541	<u>\$</u>	104,114

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$109,251,256 and an unvoted debt margin of \$1,213,903.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees and administrators earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 320 days. Upon retirement, payment is made for 25% of the total sick leave accumulation, up to a maximum accumulation of 66 days severance pay at the daily rate of the employee.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided through the Stark County Council of Governments Health Benefits Program.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance for all insurance. Buildings are 90% co-insured. A summary of coverage provided are as follows:

	Coverage	Deductible
Buildings, Contents and Boiler	\$21,336,000	\$ 5,000
Automobile Liability	1,000,000	0
Uninsured Motorists	50,000	0
Garage Policy:		
Per Occurrence	1,000,000	100
Aggregate	3,000,000	
General Liability:		
Per Occurrence	2,000,000	1,000
Aggregate	4,000,000	
Excess Liability	5,000,000	1,000

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

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

B. Employee Health, Dental and Vision

The District has contracted with the Stark County Schools Council of Government (Council) Health Benefits Program to provide employee medical/surgical, dental and vision benefits. The Council's Health Benefits Program is a shared risk pool comprised of 15 Stark County Districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is paid in a common fund from which claim payments are made for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting District subsequent to the settlements of all expenses and claims. The District pays 90% of the premium for medical and dental coverage and 100% of the premium for vision coverage. The following amounts were paid by the District in fiscal 2005:

	Family	Single
Medical	\$662.87	\$272.87
Dental	85.48	34.65
Vision	20.15	8.12

C. Workers' Compensation

The District also participates in a program within the Council to obtain workers' compensation coverage. This program is administered by Comp Management, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the state are based on this calculation. Total savings are then determined and each participant's performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the program. This process insures that each participant pays an equitable share of the cost.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to fund pension contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$69,828, \$58,428 and \$54,073, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employees. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to fund pension contributions to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$453,935, \$432,216, and \$400,583, respectively; 100% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$551 made by the District and \$3,921 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$34,918 during fiscal 2005.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$35,009 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

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

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

Net Change in Fund Balance

	General Fund
Budget basis	\$ 127,904
Net adjustment for revenue accruals	13,676
Net adjustment for expenditure accruals	157,090
Net adjustment for other sources/uses	(207,889)
Adjustment for encumbrances	320,090
GAAP basis	\$ 410,871

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2005.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

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.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

		Capital
	<u>Textbooks</u>	Acquisition
Set-aside cash balance as of June 30, 2004	\$ (657,036)	\$ -
Current year set-aside requirement	97,614	97,614
Qualifying disbursements	(269,131)	(420,714)
Total	<u>\$ (828,553)</u>	\$ (323,100)
Cash balance carried forward to FY 2006	<u>\$ (828,553)</u>	\$

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the setaside requirement for future years. The negative amount is therefore not presented as being carrier forward to the next fiscal year. This page intentionally left blank.



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*

Stark County Area Vocational School District Stark County 6805 Richville Drive SW Massillon, Ohio 44646

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Area Vocational School District, Stark County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702 Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001 www.auditor.state.oh.us Stark County Area Vocational School District Stark 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 audit committee, management and the Board of Education. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery Auditor of State

December 12, 2005



Auditor of State Betty Montgomery 88 East Broad Street P.O. Box 1140 Columbus, Ohio 43216-1140 Telephone 614-466-4514 800-282-0370

Facsimile 614-466-4490

STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbett

CLERK OF THE BUREAU

CERTIFIED DECEMBER 30, 2005