



**Auditor of State
Betty Montgomery**

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY**

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Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANT'S

Windham Exempted Village School District
Portage County
9530 Bauer Avenue
Windham, Ohio 44288

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 Windham Exempted Village School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 18.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

December 13, 2004

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Windham Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$574,570 which represents a 2.30% decrease from 2003.
- General revenues accounted for \$7,592,605 in revenue or 80.71% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,814,627 or 19.29% of total revenues of \$9,407,232.
- The District had \$9,981,802 in expenses related to governmental activities; only \$1,814,627 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,592,605 were not adequate to provide for these programs.
- The District has two major governmental funds, the general fund and classroom facilities fund. The general fund had \$7,646,708 in revenues and other financing sources and \$7,459,673 in expenditures and other financing uses. The classroom facilities fund had \$1,724 in revenues and \$57,570 in expenditures. During fiscal 2004, the general fund's fund balance increased \$195,385 from \$(621,188) to \$(425,803) and the classroom facilities fund balance decreased \$55,846 from \$832,554 to \$776,708.

Using the Basic Financial Statements (BFS)

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.

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 2004?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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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, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges. The statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds 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 major governmental funds are the general fund and classroom facilities 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 15-19.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its 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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis for government-wide financial statements using the full accrual basis of accounting is presented below. The 2003 amounts have been restated - see Note 3.B. in the notes to the financials.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

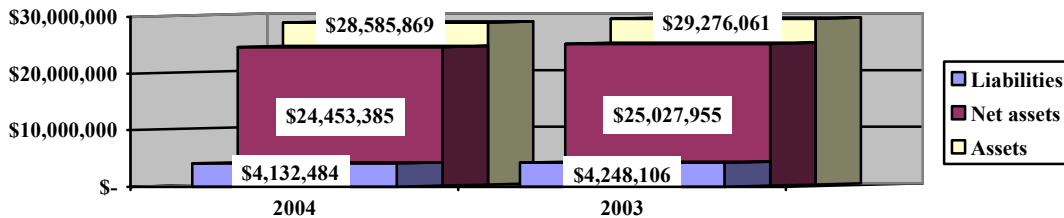
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	Net Assets	
	Governmental Activities 2004	Restated Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 3,005,033	\$ 2,898,923
Capital assets	<u>25,580,836</u>	<u>26,377,138</u>
Total assets	<u>28,585,869</u>	<u>29,276,061</u>
<u>Liabilities</u>		
Current liabilities	2,479,133	2,407,687
Long-term liabilities	<u>1,653,351</u>	<u>1,840,419</u>
Total liabilities	<u>4,132,484</u>	<u>4,248,106</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	24,551,579	25,181,513
Restricted	846,814	1,010,415
Unrestricted	<u>(945,008)</u>	<u>(1,163,973)</u>
Total net assets	<u>\$ 24,453,385</u>	<u>\$ 25,027,955</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$24,453,385. At year-end, restricted net assets were \$846,814, which are subject to external restriction.

At year-end, capital assets represented 89.49% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$24,551,579. 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.

Governmental Activities



**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The table below shows the change in net assets for fiscal year 2004 compared to fiscal year 2003.

	Change in Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 426,973	\$ 380,960
Operating grants and contributions	1,364,829	1,145,896
Capital grants and contributions	22,825	182,381
General revenues:		
Property taxes	1,391,465	1,292,213
Grants and entitlements	6,004,842	6,062,677
Investment earnings	18,363	31,054
Other	<u>177,935</u>	<u>97,316</u>
Total revenues	<u>9,407,232</u>	<u>9,192,497</u>

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Change in Net Assets

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,399,518	\$ 4,412,049
Special	1,317,554	1,177,982
Vocational	164,026	153,131
Other	31,368	36,451
Support services:		
Pupil	390,775	611,866
Instructional staff	559,423	472,122
Board of education	51,501	37,235
Administration	639,653	769,032
Fiscal	214,956	196,043
Business	21,344	61,176
Operations and maintenance	1,037,009	1,261,014
Pupil transportation	465,659	333,924
Central	28,908	6,285
Operations of non-instructional services	-	7,283
Food service operations	402,958	401,816
Extracurricular activities	197,931	205,052
Interest and fiscal charges	59,219	63,311
Total expenses	<u>9,981,802</u>	<u>10,205,772</u>
Decrease in net assets	<u>\$ (574,570)</u>	<u>\$ (1,013,275)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$574,570. Total governmental expenses of \$9,981,802 were offset by program revenues of \$1,814,627 and general revenues of \$7,592,605. Program revenues supported 18.18% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 78.62% of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Portage County in 2000, the District's tax valuation increased by 12% that year.

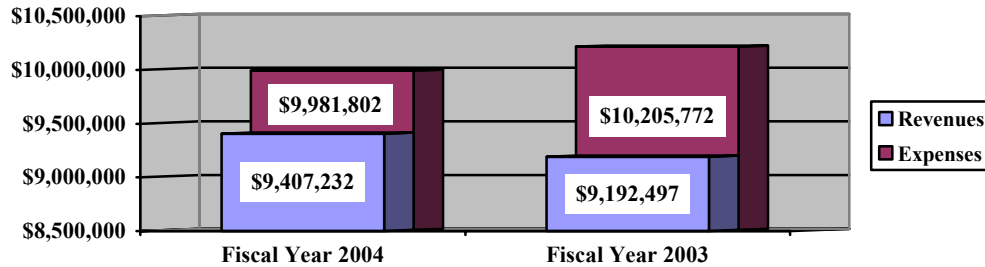
The District's financial condition has improved significantly in recent years, primarily due to increased financial support from the state. State support has increased by 5% over the last two years. Unfortunately, due to enrollment declines these increases are not projected for the future. Future increases in state funding are projected to be more inflationary rather than the low increases seen over the past several years.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

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

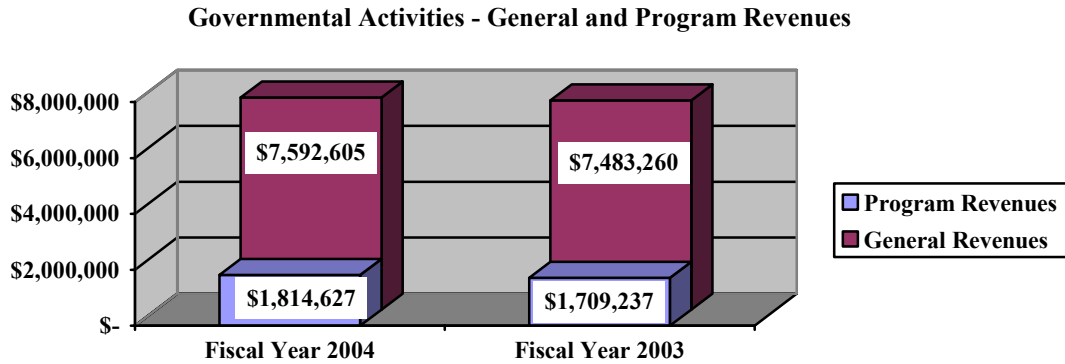
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 4,399,518	\$ 3,681,350	\$ 4,412,049	\$ 3,812,752
Special	1,317,554	838,089	1,177,982	940,423
Vocational	164,026	164,026	153,131	153,131
Other	31,368	31,368	36,451	36,451
Support services:				
Pupil	390,775	387,552	611,866	599,365
Instructional staff	559,423	463,438	472,122	309,442
Board of education	51,501	51,501	37,235	37,235
Administration	639,653	615,568	769,032	695,380
Fiscal	214,956	214,956	196,043	196,043
Business	21,344	(31,773)	61,176	21,798
Operations and maintenance	1,037,009	1,037,009	1,261,014	1,090,133
Pupil transportation	465,659	433,248	333,924	333,924
Central	28,908	23,908	6,285	1,285
Operations of non-instructional services	-	-	7,283	7,283
Food service operations	402,958	70,769	401,816	55,145
Extracurricular activities	197,931	126,947	205,052	143,434
Interest and fiscal charges	59,219	59,219	63,311	63,311
Total expenses	<u>\$ 9,981,802</u>	<u>\$ 8,167,175</u>	<u>\$ 10,205,772</u>	<u>\$ 8,496,535</u>

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 79.74% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.82%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$462,489, which is higher than last year's total of \$357,188 restated Note 3.A. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Restated Fund Balance <u>June 30, 2003</u>	Increase <u>Decrease</u>
General	\$ (425,803)	\$ (621,188)	\$ 195,385
Classroom Facilities	776,708	832,554	(55,846)
Other Governmental	<u>111,584</u>	<u>145,822</u>	<u>(34,238)</u>
Total	<u>\$ 462,489</u>	<u>\$ 357,188</u>	<u>\$ 105,301</u>

General Fund

The District's general fund balance increased \$195,385. The increase in fund balance can be attributed to decreasing expenditures and a growth in revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,275,779	\$ 980,014	30.80%
Tuition	189,323	171,285	10.53%
Earnings on investments	12,010	24,389	(50.76)%
Intergovernmental	5,995,142	6,032,881	.63%
Other revenues	<u>148,172</u>	<u>18,603</u>	696.50%
Total	<u>\$ 7,620,426</u>	<u>\$ 7,227,172</u>	5.44%
<u>Expenditures</u>			
Instruction	\$ 4,190,121	\$ 4,664,780	(10.18)%
Support services	2,913,893	3,131,315	(6.94)%
Extracurricular activities	122,539	138,724	(11.67)%
Capital outlay	-	131,784	(100.00)%
Debt service	<u>55,490</u>	<u>37,437</u>	48.22%
Total	<u>\$ 7,282,043</u>	<u>\$ 8,104,040</u>	(10.14)%

Classroom Facilities Fund

The District's Classroom Facilities capital projects fund balance decreased \$55,846. The school facilities project was completed during the previous year and the District was making final payments during the current year. The table below assists in illustrating the financial activities and fund balance of the classroom facilities fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Earnings on investments	\$ 1,724	\$ 381	352.49%
Intergovernmental	<u>-</u>	<u>170,881</u>	(100.00)%
Total	<u>\$ 1,724</u>	<u>\$ 171,262</u>	(98.99)%
<u>Expenditures</u>			
Facilities acquisition and construction	<u>\$ 57,570</u>	<u>\$ 163,543</u>	(64.80)%
Total	<u>\$ 57,570</u>	<u>\$ 163,543</u>	(64.80)%

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 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$7,673,216, which is lower than the original budgeted revenues estimate of \$7,821,980. Actual revenues and other financing sources for fiscal 2004 was \$7,673,210. This represents a \$6 decrease under final budgeted revenues.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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General fund original appropriations (appropriated expenditures plus other financing uses) of \$7,821,009 were decreased to \$7,804,151 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$7,784,462, which was \$19,689 less than the final budget appropriations. The decreases in appropriations were caused by the District's worst case scenario budgeting method in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$25,580,836 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to the restated balance in 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 207,375	\$ 207,375
Land improvements	774,187	799,830
Building and improvements	23,680,590	24,327,411
Furniture and equipment	653,438	745,417
Vehicles	<u>265,246</u>	<u>297,105</u>
Total	<u>\$ 25,580,836</u>	<u>\$ 26,377,138</u>

Total additions to capital assets for 2004 were \$18,376 and total disposals were \$12,990 (net of accumulated depreciation). The overall decrease in capital assets of \$796,302 is primarily due to the recording of \$801,688 in depreciation expense for fiscal 2004. See Note 8 for additional detail on capital assets.

Debt Administration

At June 30, 2004, the District had \$914,678 in general obligation bonds outstanding. Of this total, \$84,729 is due within one year and \$829,949 is due within greater than one year. The following table summarizes the bonds outstanding:

	Outstanding Debt, at Year End	
	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
General obligation bonds:		
Energy conservation bonds	\$ 112,226	\$ 203,935
Construction bonds	<u>802,452</u>	<u>831,041</u>
Total	<u>\$ 914,678</u>	<u>\$ 1,034,976</u>

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The energy conservation bonds were issued in 1998. These bonds are scheduled to mature in fiscal year 2005 and bear an interest rate of 5.50%. Payment of principal and interest on the energy conservation bonds is being made from the debt service fund.

In 1998, the District passed a 2.11 mill tax levy, providing for classroom facilities construction bonds. The general obligation bonds bear an interest rate of 5.35%. Payment of principal and interest on the construction bonds is being made from the debt service fund.

At June 30, 2004, the District's overall legal debt margin was \$3,945,275 with an unvoted debt margin of \$52,185, and an energy conservation debt margin of \$357,443. The District maintains an A-1 bond rating. See Note 10 for details of the District's long-term obligations.

Current Financial Related Activity

The District faces many challenges in the future. The District was placed in Fiscal Caution by the Ohio Department of Education and the Auditor of State's Office conducted a Performance Audit during fiscal year 2003. The District continues to examine the operating procedures for additional cost saving measures.

Another challenge is the six mill continuing operating levy on the ballot in November of 2004. The District currently projects operating revenue to meet operating expenses through fiscal year 2007. The five-year forecast is a fluid tool and the District faces many challenges as it struggles to reestablish a cash balance. This tax levy would generate approximately \$313,000 each fiscal year. If the levy is not successful in November 2004, the District will have to make cuts to educational programs to operate within the current revenue projections.

The next challenge facing the District is a decline in enrollment. The District enrollment has decreased by approximately sixty students from fiscal year 2003 to fiscal year 2004 and another decline is expected from fiscal year 2004 to fiscal year 2005. These declines impact our state funding as the District no longer receives state funding based on a rolling three-year average of student enrollment, but at the current year. By basing the state funding on current year enrollment, the District is anticipating a decline in state funding in fiscal year 2005.

Since the District relies on the State for approximately 79% of the general operating revenues, the largest challenge facing the District is the future of state funding. 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 its tax revenue growth toward school districts with little property tax wealth. 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. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

All of the District's financial abilities will be needed to meet the financial challenges of the future.

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 Ms. Tracy Knauer, Treasurer of Windham Exempted Village School District at 9530 Bauer Avenue, Windham, Ohio 44288.

BASIC
FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,268,627
Investments.	112,176
Receivables:	
Taxes	1,532,440
Accounts	4,992
Intergovernmental	51,148
Prepayments	7,543
Materials and supplies inventory.	28,107
Capital assets:	
Land	207,375
Depreciable capital assets, net	25,373,461
Total capital assets, net	25,580,836
Total assets.	28,585,869
Liabilities:	
Accounts payable.	13,260
Contracts payable.	1,639
Accrued wages and benefits	854,698
Pension obligation payable.	184,849
Intergovernmental payable	50,167
Deferred revenue	1,365,189
Accrued interest payable	9,331
Long-term liabilities:	
Due within one year.	148,824
Due in more than one year	1,504,527
Total liabilities	4,132,484
Net Assets:	
Invested in capital assets, net of related debt.	24,551,579
Restricted for:	
Capital projects	799,533
Debt service.	47,281
Unrestricted (deficit)	(945,008)
Total net assets	\$ 24,453,385

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,399,518	\$ 195,582	\$ 499,761	\$ 22,825	\$ (3,681,350)
Special	1,317,554	-	479,465	-	(838,089)
Vocational	164,026	-	-	-	(164,026)
Other	31,368	-	-	-	(31,368)
Support services:					
Pupil	390,775	-	3,223	-	(387,552)
Instructional staff	559,423	-	95,985	-	(463,438)
Board of education	51,501	-	-	-	(51,501)
Administration	639,653	-	24,085	-	(615,568)
Fiscal	214,956	-	-	-	(214,956)
Business	21,344	-	53,117	-	31,773
Operations and maintenance	1,037,009	-	-	-	(1,037,009)
Pupil transportation	465,659	29,119	3,292	-	(433,248)
Central	28,908	-	5,000	-	(23,908)
Extracurricular activities	197,931	70,984	-	-	(126,947)
Food service operations	402,958	131,288	200,901	-	(70,769)
Interest and fiscal charges	59,219	-	-	-	(59,219)
Totals	\$ 9,981,802	\$ 426,973	\$ 1,364,829	\$ 22,825	(8,167,175)

General Revenues:

Property taxes levied for:	
General purposes	1,300,847
Debt service	69,557
Special revenue	21,061
Grants and entitlements not restricted	
to specific programs	6,004,842
Investment earnings	18,363
Miscellaneous	177,935
Total general revenues	7,592,605
Change in net assets	(574,570)
Net assets at beginning of year (restated)	25,027,955
Net assets at end of year	\$ 24,453,385

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 222,348	\$ 776,708	\$ 199,383	\$ 1,198,439
Investments.	-	-	112,176	112,176
Receivables:				
Taxes	1,435,194	-	97,246	1,532,440
Accounts	4,992	-	-	4,992
Intergovernmental.	23,725	-	27,423	51,148
Interfund loans	22,321	-	-	22,321
Prepayments	7,543	-	-	7,543
Materials and supplies inventory.	8,736	-	19,371	28,107
Restricted assets:				
Equity in pooled cash and cash equivalents	70,188	-	-	70,188
Total assets.	<u>\$ 1,795,047</u>	<u>\$ 776,708</u>	<u>\$ 455,599</u>	<u>\$ 3,027,354</u>
Liabilities:				
Accounts payable	\$ 12,421	\$ -	\$ 839	\$ 13,260
Contracts payable.	-	-	1,639	1,639
Accrued wages and benefits	668,259	-	186,439	854,698
Compensated absences payable.	18,808	-	-	18,808
Pension obligation payable	87,382	-	21,414	108,796
Intergovernmental payable	38,751	-	11,416	50,167
Interfund loan payable	-	-	22,321	22,321
Deferred revenue	1,395,229	-	99,947	1,495,176
Total liabilities	<u>2,220,850</u>	<u>-</u>	<u>344,015</u>	<u>2,564,865</u>
Fund Balances:				
Reserved for encumbrances.	136,227	-	18,235	154,462
Reserved for bus purchases	70,188	-	-	70,188
Reserved for materials and supplies inventory	8,736	-	19,371	28,107
Reserved for debt service.	-	-	48,682	48,682
Reserved for property tax unavailable for appropriation.	39,965	-	3,042	43,007
Reserved for prepayments.	7,543	-	-	7,543
Unreserved, undesignated (deficit), reported in:				
General fund.	(688,462)	-	-	(688,462)
Special revenue funds	-	-	(571)	(571)
Capital projects funds	-	776,708	22,825	799,533
Total fund balances.	<u>(425,803)</u>	<u>776,708</u>	<u>111,584</u>	<u>462,489</u>
Total liabilities and fund balances	<u>\$ 1,795,047</u>	<u>\$ 776,708</u>	<u>\$ 455,599</u>	<u>\$ 3,027,354</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 462,489
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		25,580,836
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 124,244	
Intergovernmental revenue	5,743	
Total		129,987
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	802,452	
Energy conservation bonds	112,226	
Compensated absences	605,286	
Pension obligation payable	76,053	
Capital lease obligation	114,579	
Accrued interest payable	9,331	
Total		(1,719,927)
Net assets of governmental activities		\$ 24,453,385

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,275,779	\$ -	\$ 90,042	\$ 1,365,821
Tuition	189,323	-	-	189,323
Charges for services	-	-	130,161	130,161
Earnings on investments	12,010	1,724	4,629	18,363
Extracurricular	-	-	126,353	126,353
Classroom materials and fees	1,147	-	5,112	6,259
Other local revenues	147,025	-	39,238	186,263
Other revenues	-	-	3,500	3,500
Intergovernmental - State	5,862,144	-	505,952	6,368,096
Intergovernmental - Federal	132,998	-	883,387	1,016,385
Total revenues	<u>7,620,426</u>	<u>1,724</u>	<u>1,788,374</u>	<u>9,410,524</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,292,168	-	574,955	3,867,123
Special	712,062	-	577,374	1,289,436
Vocational	154,523	-	-	154,523
Other	31,368	-	-	31,368
Support Services:				
Pupil	350,097	-	5,894	355,991
Instructional staff	439,635	-	104,202	543,837
Board of education	51,501	-	-	51,501
Administration	523,711	-	44,678	568,389
Fiscal	206,132	-	1,919	208,051
Business	10,720	-	10,624	21,344
Operations and maintenance	910,664	-	43,364	954,028
Pupil transportation	420,356	-	8,120	428,476
Central	1,077	-	27,831	28,908
Food service operations	-	-	331,320	331,320
Extracurricular activities	122,539	-	61,510	184,049
Facilities acquisition and construction	-	57,570	-	57,570
Debt service:				
Principal retirement	46,070	-	120,298	166,368
Interest and fiscal charges	9,420	-	54,912	64,332
Total expenditures	<u>7,282,043</u>	<u>57,570</u>	<u>1,967,001</u>	<u>9,306,614</u>
Excess of revenues over (under) expenditures	<u>338,383</u>	<u>(55,846)</u>	<u>(178,627)</u>	<u>103,910</u>
Other financing sources (uses):				
Transfers in	26,282	-	180,570	206,852
Transfers out	(177,630)	-	(29,222)	(206,852)
Proceeds from sale of capital assets	-	-	1,087	1,087
Total other financing sources (uses)	<u>(151,348)</u>	<u>-</u>	<u>152,435</u>	<u>1,087</u>
Net change in fund balances	187,035	(55,846)	(26,192)	104,997
Fund balances at beginning of year (restated)				
	(621,188)	832,554	145,822	357,188
Increase (decrease) in reserve for inventory	8,350	-	(8,046)	304
Fund balances (deficit) at end of year	<u>\$ (425,803)</u>	<u>\$ 776,708</u>	<u>\$ 111,584</u>	<u>\$ 462,489</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	104,997
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 depreciation expense (\$801,688) exceeds capital outlays (\$18,376) in the current period.		(783,312)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(12,990)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		304
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(25,693)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		166,368
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		5,113
Some expenses reported in the statement of activities, such as compensated absences and pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(29,357)
		<hr/>
Change in net assets of governmental activities	\$	(574,570)
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,119,725	\$ 1,097,473	\$ 1,097,473	\$ -
Tuition.	193,162	189,323	189,323	-
Earnings on investments.	12,254	12,010	12,010	-
Other local revenues.	89,080	87,309	87,312	3
Intergovernmental - State	5,959,520	5,841,089	5,841,080	(9)
Intergovernmental - Federal.	112,193	109,966	109,966	-
Total revenues.	<u>7,485,934</u>	<u>7,337,170</u>	<u>7,337,164</u>	<u>(6)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,435,679	3,428,079	3,427,927	152
Special.	830,247	828,410	828,368	42
Vocational.	165,539	165,173	164,607	566
Other	31,438	31,368	31,368	-
Support Services:				
Pupil.	388,755	387,895	385,883	2,012
Instructional staff	423,628	422,691	418,395	4,296
Board of education	53,362	53,244	52,874	370
Administration.	600,297	598,969	598,812	157
Fiscal	203,648	203,197	200,614	2,583
Business	20,219	20,174	18,564	1,610
Operations and maintenance.	961,905	959,777	957,766	2,011
Pupil transportation	380,806	379,964	375,694	4,270
Central.	1,196	1,193	1,097	96
Extracurricular activities.	123,413	123,140	121,616	1,524
Total expenditures	<u>7,620,132</u>	<u>7,603,274</u>	<u>7,583,585</u>	<u>19,689</u>
Excess of revenues over expenditures.	<u>(134,198)</u>	<u>(266,104)</u>	<u>(246,421)</u>	<u>19,683</u>
Other financing sources (uses):				
Refund of prior year expenditure	55,702	55,702	55,702	-
Transfers in	233,088	233,088	233,088	-
Transfers (out)	(178,556)	(178,556)	(178,556)	-
Advances in.	47,256	47,256	47,256	-
Advances (out).	(22,321)	(22,321)	(22,321)	-
Total other financing sources (uses)	<u>135,169</u>	<u>135,169</u>	<u>135,169</u>	<u>-</u>
Net change in fund balance	971	(130,935)	(111,252)	19,683
Fund balance at beginning of year	161,249	161,249	161,249	-
Prior year encumbrances appropriated.	95,242	95,242	95,242	-
Fund balances at end of year	<u>\$ 257,462</u>	<u>\$ 125,556</u>	<u>\$ 145,239</u>	<u>\$ 19,683</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ -	\$ 8,082
Investments	40,246	-
Receivables:		
Due from other governments.	-	952
	40,246	\$ 9,034
Total assets	40,246	\$ 9,034
Liabilities:		
Due to students.	-	\$ 9,034
Total liabilities	-	\$ 9,034
Net Assets:		
Held in trust for scholarships	40,246	
Total net assets	\$ 40,246	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,429
Gifts and contributions.	271
	1,700
Total additions.	1,700
Deductions:	
Scholarships awarded	1,149
	551
Change in net assets	551
Net assets at beginning of year.	39,695
	40,246
Net assets at end of year	\$ 40,246

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Windham Exempted Village School District (the "District") is located in Portage County and is located in the Village of Windham, and portions of surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 474th largest by enrollment among the 613 public and community school districts in the state. It currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 46 non-certified, 85 certified (including administrative) full-time and part-time employees to provide services to approximately 1,093 students in grades K through 12 and various community groups.

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, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization 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 to 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 this 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:

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 31 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 39th Street NW, Canton, Ohio 44709-2300.

Maplewood Career Center

The Maplewood Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of two representatives from each of the ten participating school districts' elected boards, which possesses its own budgeting and taxing authority. The jointly governed organization was formed for the purpose of providing vocational instruction to juniors and seniors in the participating districts. To obtain financial information, write to the Maplewood Career Center, Doris Hart, who serves as Treasurer, at 7075 State Route 88, Ravenna, Ohio 44266-9131.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrolment fee to the Plan to cover the costs of administering the program.

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.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

GOVERNMENTAL FUNDS

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

General Fund - 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.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for food service operations; (c) for the accumulation of resources for, and the repayment, of, long-term debt principal, interest and related costs; and (d) 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.

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 fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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.

Fund Financial Statements - 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.

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 also use the accrual basis of accounting.

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

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The 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. Unused donated commodities are reported as deferred 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.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Tax Budget:

Prior to January 15, 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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Portage County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. 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 statements reflect the amounts in the final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. 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 may not exceed the appropriation totals at any level of control. Any revisions that alter the specific fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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

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 fund level.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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" (both restricted and unrestricted) and "Investments" on the basic financial statements.

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$12,010, which includes \$8,170 assigned from other District 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 Treasurer's investment account at 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 purchase method on the fund financial statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

H. Capital Assets

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

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

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	10 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 sick leave to the extent that payment 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 "Accounting for Compensated Absences", 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 termination method; i.e., an accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on sick leave and vacation leave balances at the end of the fiscal year.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the 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, bus purchases, debt service, materials and supplies inventory, prepayments, and property taxes 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 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. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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.

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount received for school bus purchases. See Note 17 for details.

Q. Interfund Activity

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

R. 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. Neither type of transaction occurred during fiscal 2004.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Governmental Activities - Fund Reclassification and Restatement of Fund Balance

The Emergency Levy special revenue fund has been reclassified to be included as a component of the general fund. There is no effect on governmental activities net assets as previously reported for this fund reclassification.

The fund reclassification had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2003	\$ (629,024)	\$ 832,554	\$ 153,658	\$ 357,188
Fund reclassifications	<u>7,836</u>	<u>-</u>	<u>(7,836)</u>	<u>-</u>
Restated fund balance,				
June 30, 2003	<u>\$ (621,188)</u>	<u>\$ 832,554</u>	<u>\$ 145,822</u>	<u>\$ 357,188</u>

B. Governmental Activities - Prior Period Adjustment

The District has presented a restatement of beginning net assets to correct an error in delinquent taxes recorded as tax revenue in the previous year. The prior period adjustment had the following effect on beginning net assets:

Governmental activities net assets, June 30, 2003	\$ 24,985,214
Correction of delinquent tax revenue	<u>42,741</u>
Governmental activities net assets, June 30, 2003	<u>\$ 25,027,955</u>

C. Deficit Fund Balances

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

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 425,803
<u>Nonmajor Funds</u>	
Food Service	47,785
Public School Preschool	10,304
Disadvantaged Pupil Impact Aid	49,846
Ohio Reads	24
Summer Intervention	2,733
Title VI-B	22,000
Title I	54,917
Preschool	37
Title II A	3,162

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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;

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$168,772 and the bank balance was \$214,055. These balances included \$152,422 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$161,632 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$52,423 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Reported Amount</u>	<u>Fair Value</u>
Not subject to categorization:		
Investment in STAR Ohio	\$ 1,260,359	\$ 1,260,359
Total investments	<u>\$ 1,260,359</u>	<u>\$ 1,260,359</u>

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,276,709	\$ 152,422
Investments of the cash management pool:		
Investment in STAR Ohio	(1,260,359)	1,260,359
Certificate of deposit	<u>152,422</u>	<u>(152,422)</u>
GASB Statement No. 3	<u>\$ 168,772</u>	<u>\$ 1,260,359</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$ 22,321

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 177,630
Nonmajor governmental funds	2,940
Transfers to General fund from:	
Nonmajor governmental funds	<u>26,282</u>
 Total Transfers	 <u>\$ 206,852</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Interfund transfers between governmental funds are eliminated for reporting in 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.

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

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-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.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Portage 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, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance has been recorded as revenue.

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

The amount available as an advance at June 30, 2004 was \$39,965 in the general fund, \$693 in the special revenue funds, and \$2,349 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2003, was \$52,123 in the general fund, \$869 in the special revenue funds, and \$2,867 in the Bond Retirement debt service fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 36,531,500	79.53	\$ 43,408,440	83.18
Public utility personal	3,297,370	7.18	2,808,150	5.38
Tangible personal property	<u>6,103,920</u>	<u>13.29</u>	<u>5,968,909</u>	<u>11.44</u>
Total	<u>\$ 45,932,790</u>	<u>100.00</u>	<u>\$ 52,185,499</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 51.16		\$ 50.61	

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, 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

Property taxes	\$ 1,532,440
Accounts	4,992
Intergovernmental	<u>51,148</u>
 Total	 <u>\$ 1,588,580</u>

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

NOTE 8 - CAPITAL ASSETS

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

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
<i>Capital assets, not being depreciated:</i>				
Land	\$ 207,375	\$ -	\$ -	\$ 207,375
Total capital assets, not being depreciated	<u>207,375</u>	<u>-</u>	<u>-</u>	<u>207,375</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,025,741	-	-	1,025,741
Building and improvements	26,440,261	6,776	-	26,447,037
Furniture and equipment	1,099,881	11,600	(15,745)	1,095,736
Vehicles	<u>522,016</u>	<u>-</u>	<u>(33,927)</u>	<u>488,089</u>
Total capital assets, being depreciated	<u>29,087,899</u>	<u>18,376</u>	<u>(49,672)</u>	<u>29,056,603</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(225,911)	(25,643)	-	(251,554)
Building and improvements	(2,112,850)	(653,597)	-	(2,766,447)
Furniture and equipment	(354,464)	(90,589)	2,755	(442,298)
Vehicles	<u>(224,911)</u>	<u>(31,859)</u>	<u>33,927</u>	<u>(222,843)</u>
Total accumulated depreciation	<u>(2,918,136)</u>	<u>(801,688)</u>	<u>36,682</u>	<u>(3,683,142)</u>
Governmental activities capital assets, net	<u>\$ 26,377,138</u>	<u>\$ (783,312)</u>	<u>\$ (12,990)</u>	<u>\$ 25,580,836</u>

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 519,418
Special	35,638
Vocational	7,535
<u>Support Services:</u>	
Pupil	8,334
Instructional Staff	46,712
Administration	47,283
Fiscal	5,271
Operations and Maintenance	36,513
Pupil Transportation	31,847
Extracurricular Activities	13,001
Food Service Operation	<u>50,136</u>
Total depreciation expense	<u>\$ 801,688</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital fixed assets consisting of office equipment have been capitalized in the amount of \$302,967. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$46,070 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 47,310
2006	30,948
2007	30,948
2008	<u>18,053</u>
Total minimum lease payments	127,259
Less amount representing interest	<u>(12,680)</u>
Total	<u>\$ 114,579</u>

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		06/30/03			06/30/04	One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Energy conservation bonds	5.50%	\$ 203,935	\$ -	\$ (91,709)	\$ 112,226	\$ 54,611
Construction bonds	5.35%	<u>831,041</u>	<u>-</u>	<u>(28,589)</u>	<u>802,452</u>	<u>30,118</u>
Total general obligation bonds payable		<u>\$ 1,034,976</u>	<u>\$ -</u>	<u>\$ (120,298)</u>	<u>\$ 914,678</u>	<u>\$ 84,729</u>
<u>Other Long-Term Obligations:</u>						
Capital lease obligation		\$ 160,649	\$ -	\$ (46,070)	\$ 114,579	\$ 41,173
Compensated absences		<u>644,794</u>	<u>98,415</u>	<u>(119,115)</u>	<u>624,094</u>	<u>22,922</u>
Total other long-term obligations		<u>\$ 805,443</u>	<u>\$ 98,415</u>	<u>\$ (165,185)</u>	<u>\$ 738,673</u>	<u>\$ 64,095</u>
Total governmental activities		<u>\$ 1,840,419</u>	<u>\$ 98,415</u>	<u>\$ (285,483)</u>	<u>\$ 1,653,351</u>	<u>\$ 148,824</u>

Energy Conservation Bonds: The District issued energy conservation bonds during fiscal year 1998. These bonds are retired from the debt service fund.

Construction Bonds: The District issued classroom facilities construction bonds during fiscal year 1998. These bonds will be retired from the debt service fund with revenue generated from a 2.11 mill levy. The district also passed a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue has been reported in the special revenue funds.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year Ended</u>	<u>Classroom Facilities Bonds</u>			<u>Energy Conservation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 30,118	\$ 42,126	\$ 72,244	\$ 54,611	\$ 6,173	\$ 60,784
2006	31,730	40,471	72,201	57,615	3,169	60,784
2007	33,427	38,728	72,155	-	-	-
2008	35,215	36,892	72,107	-	-	-
2009	37,099	34,958	72,057	-	-	-
2010 - 2014	217,480	141,950	359,430	-	-	-
2015 - 2019	282,224	75,474	357,698	-	-	-
2020 - 2021	135,159	7,324	142,483	-	-	-
Total	<u>\$ 802,452</u>	<u>\$ 417,923</u>	<u>\$ 1,220,375</u>	<u>\$ 112,226</u>	<u>\$ 9,342</u>	<u>\$ 121,568</u>

C. 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 indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$3,945,275 (including available funds of \$51,031) and an unvoted debt margin of \$52,185, and an energy conservation debt margin of \$357,443.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of seventy days for both certificated and classified employees. Classified employees also receive a bonus of 10% of the sick leave balance over 180 days up to 300 days. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Insurance Benefits

The District provides life insurance to all full-time employees in the amount of \$33,000 for certified, \$30,000 for classified and \$22,000 for administrative staff.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 11 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$150,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium's governing board, as provided in the Consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2004, the District contracted with the following carriers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Indiana Insurance	Automobile	\$250 Comprehensive; \$500 Collision
Harcum-Hyre Insurance Agency	General Liability	\$0
Indiana Insurance	Property Insurance	\$2,500

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

B. Group Health and Dental Insurance

Health, life, dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are determined by negotiated agreements with employee labor unions (currently, single and family coverage is 90% Board-paid and 10% employee-paid for employees hired after September 1, 2001 - for all other employees 95% is Board-paid and 5% is employee paid).

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT - (Continued)

While all benefit plans are traditionally-funded through common carriers, the Board's group health plan contains provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for fiscal 2004), contingent upon the group's claims experience for the year. While the District has not retained risk for any claims, should the group's claim costs for the year exceed the threshold of the discounted amount remitted to the carrier during the year, the District must remit additional premium, to a maximum of the difference between the discounted premium and the full premium.

C. OSBA Group Workers' Compensation Rating Program

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

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 State Statute 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 43215-3476, or by calling (614) 222-5853.

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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$143,651, \$160,892, and \$161,108, respectively; 42% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$83,298, represents the unpaid contribution for fiscal year 2004.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 43215-3771, or by calling (614) 227-4090.

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

A DB or Combined Plan member with five or more years 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.

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 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 employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$544,361, \$570,900, and \$592,873, respectively; 85% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$81,030, represents the unpaid contribution for fiscal year 2004.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, 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 this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$38,883 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368.739 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. 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. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$73,141 during the 2004 fiscal year.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

	<u>General Fund</u>
Budget basis	\$ (111,252)
Net adjustment for revenue accruals	283,262
Net adjustment for expenditure accruals	154,245
Net adjustment for other sources/uses	(286,517)
Adjustment for encumbrances	<u>147,297</u>
GAAP basis	<u>\$ 187,035</u>

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.

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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, 2004, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside cash balance as of June 30, 2003	\$ (13,923)	\$ -
Current year set-aside requirement	150,623	150,623
Qualifying disbursements	(157,797)	(313,976)
Total	\$ (21,097)	\$ (163,353)
Balance carried forward to FY 2005	\$ (21,097)	\$ -

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 set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for school bus purchases	\$ 70,188
Total restricted assets	\$ 70,188

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 18 - FINANCIAL CONDITION

On December 31, 2002, the District was declared to be in fiscal caution by the Ohio Department of Education and Auditor of State. The general fund and other funds' year-end deficit balances have been disclosed in Note 3. An entity may be released from fiscal caution if the Department of Education determines that corrective actions have been or are being implemented. The Auditor of State's office released a performance audit of the District on November 20, 2003. The performance audit report provided recommendations to eliminate the conditions that brought about the declaration of fiscal caution. The performance audit report contained the following noteworthy accomplishments made by the District while in fiscal caution: 1) the District decreased expenditures in various areas, thereby increasing ending fund balances and improving its financial condition. For instance, the Board of Education approved 18.9 Full-Time Equivalent (FTE) staff reductions, which was a recommendation of the performance audit; 2) the treasurer updated previous forecasts to present more reliable and accurate projections; 3) as recommended in the performance audit, the District closed East Elementary School at the end of the FY 2002-03 school year, reduced staff, and leased the facility to the PCESC for several years; 4) the District joined the Ohio Schools Council (OSC) to take advantage of group purchasing agreements and consortiums to help reduce operating costs; 5) the District reduced one bus route; 6) renegotiated fuel prices; (7) adjusted temperature settings; (8) exploring options to cover special needs transportation; and (9) the maximum out-of-pocket costs for medical expenses have been increased and the prescription program was changed to a three-tier plan.

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**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY**

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

Federal Grantor/ Pass-Through/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster :</i>						
Food Distribution	None	10.550		\$22,401		\$13,621
National School Breakfast Program	045666-05-PU 2004	10.553	34,839		34,839	
National School Lunch Program	045666-LL-P4 2004	10.555	133,018		133,018	
Total U.S.Department of Agriculture-Nutrition Cluster			167,857	22,401	167,857	13,621
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies (Title 1 Part A)	045666- C1S1-2003	84.010	15,000		20,402	
Total Title 1 Grants to Local Educational Agencies	045666-C1S1-2004	84.010	397,867		373,429	
			412,867		393,831	
<i>Special Education Cluster:</i>						
Special Education-Grants to States (IDEA Part B)	045666-6BEF-2003	84.027			493	
Total Special Education-Grants to States	045666-6BEF-2004	84.027	176,531		170,322	
			176,531		170,815	
Special Education-Preschool Grant	045666-PGS1-2004	84.173	8,268		8,268	
Total Special Education Cluster			597,666		572,914	
Impact Aid	045666-S041A-2004	84.041	90,329		90,329	
Safe and Drug-Free Schools and Communities-State Grants	045666-DRS1-2003	84.186			282	
	045666-DRS1-2004	84.186	6,491		6,246	
Total Safe and Drug-Free Schools and Communities			6,491		6,528	
Innovative Education Program Strategies	045666-C2S1-2003	84.298	1,287		1,287	
	045666-C2S1-2004	84.298	3,550		2,137	
Total Innovative Education Program Strategies			4,837		3,424	
Technology Literacy Challenge Fund Grant	045666-TF51-2003	84.318			1,140	
	045666-TF51-2004	84.318	9,650		8,904	
Total Technology Literacy Challenge Fund Grant			9,650		10,044	
Improving Teacher Quality	045666-TR-S1-2003	84.367	2,916		8,527	
	045666-TR-S1-2004	84.367	69,736		63,136	
Total Improving Teacher Quality			72,652		71,663	
Total U.S. Department of Education			781,625		754,902	
U.S DEPARTMENT OF HUMAN SERVICES						
<i>Passed through Ohio Department of MR/DD</i>						
Medical Assistance Program (CAFS)		93.778	11,530		11,596	
Total Federal Financial Assistance			<u>\$961,012</u>	<u>\$22,401</u>	<u>\$934,355</u>	<u>\$13,621</u>

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

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY
FISCAL YEAR ENDED JUNE 30, 2004**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B— FOOD DISTRIBUTION

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C— MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

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

Windham Exempted Village School District
Portage County
9530 Bauer Avenue
Windham, Ohio 44288

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 Windham Exempted Village School District, Portage County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 13, 2004.

Windham Exempted Village School District
Portage County
Independent Accountants' Report on Compliance
and on Internal Control Required by *Government Audit Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

December 13, 2004



Auditor of State Betty Montgomery

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

Windham Exempted Village School District
Portage County
9530 Bauer Avenue
Windham, Ohio 44288

To the Board of Education:

Compliance

We have audited the compliance of the Windham Exempted Village School District, Portage County (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 13, 2004.

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

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

Betty Montgomery
Auditor of State

December 13, 2004

**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

Finding Number	N/A-No finding is reported
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	N/A-No finding is reported
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**Auditor of State
Betty Montgomery**

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800-282-0370

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**WINDHAM EXEMPTED VILLAGE SCHOOL DISTRICT
PORTAGE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**