

Mogadore Local School District
Summit County, Ohio

Basic Financial Statements
For The Fiscal Year Ended June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Mogadore Local School District
1 South Cleveland Ave
Mogadore, Ohio 44260

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 5, 2006

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Mogadore Local School District
Summit County
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 20, 2006

The Board of Education
Mogadore Local School District
1 S. Cleveland Avenue
Mogadore, Ohio 44260

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mogadore Local School District (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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.

As stated in Note 3 Mogadore Local School District, Ohio, adopted Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis, No. 37, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures, GASB Statement No. 41, "Budgetary Comparison Schedules Perspective Difference," and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financials."

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Hea & Associates, Inc.

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

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

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- In total, net assets decreased by \$744,532.
- Revenues for governmental activities totaled \$7,679,789 in 2004. Of this total, 92 percent consisted of general revenues while program revenues accounted for the balance of 8 percent.
- Program expenses totaled \$8,424,321. Instructional expenses made up 53 percent of this total while support services accounted for 41 percent. Other expenses rounded out the remaining 6 percent.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds

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

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

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2004</i>	<i>Restated 2003</i>
Assets		
Current and Other Assets	\$11,010,157	\$10,492,924
Capital Assets, Net	1,698,812	1,718,396
<i>Total Assets</i>	12,708,969	12,211,320
Liabilities		
Current and Other Liabilities	5,173,734	3,907,535
Long-term Liabilities:		
Due Within One Year	212,514	111,267
Due in More than One Year	626,311	685,362
<i>Total Liabilities</i>	6,012,559	4,704,164
Net Assets		
Invested in Capital Assets, Net of Debt	1,356,264	1,355,902
Restricted	333,203	469,536
Unrestricted	5,006,943	5,615,504
<i>Total Net Assets</i>	\$6,696,410	\$7,440,942

Total assets increased by \$497,649. The majority of the increase can be attributed to taxes receivable increasing due to the passage of the construction bond levy. The levy proceeds will be used to build new facilities under the Ohio School Facilities Commission guidelines. As of June 30, 2004, the School District was in the planning stage of the building project.

Total liabilities increased by \$1,308,395. This increase can be mainly attributed to the increase in deferred revenues due to anticipated increases in tax collections.

By comparing assets and liabilities, one can see that the overall position of the School District is strong. The net assets balance of the School District is \$6,696,410.

Mogadore Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$7,045,974 or 92 percent of the total revenue. The most significant portion of the general revenue is local property tax and state support. The remaining amount of revenue received was in the form of program revenues, which equated to \$633,815 or only 8 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	<i>Governmental Activities 2004</i>
Revenues	
Program Revenues:	
Charges for Services	\$271,541
Operating Grants and Contributions	362,274
<i>Total Program Revenues</i>	633,815
General Revenues:	
Property Taxes	3,914,847
Grants and Entitlements	2,175,961
Investments	80,428
Miscellaneous	874,738
<i>Total General Revenues</i>	7,045,974
<i>Total Revenues</i>	7,679,789
Program Expenses	
Instruction	
Regular	3,443,707
Special	955,751
Vocational	54,166
Support Services:	
Pupil	410,961
Instructional Staff	457,200
Board of Education	67,410
Administration	687,433
Fiscal	349,009
Business	2,128
Operation and Maintenance	1,017,851
Pupil Transportation	356,182
Central	78,238
Operating of Non-Instructional Services	147,123
Extracurricular Activities	375,560
Interest and Fiscal Charges	21,602
<i>Total Program Expenses</i>	8,424,321
<i>Decrease in Net Assets</i>	(744,532)
<i>Net Assets Beginning of Year (Restated-Note 3)</i>	7,440,942
<i>Net Assets End of Year</i>	\$6,696,410

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

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As one can see, approximately 53 percent of the School District's expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 41 percent. The remaining amount of program expenses, 6 percent, is to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities. Actual expenses were consistent with the expectations of the School District.

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

Table 3
Governmental Activities

	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2004</i>
	<hr/>	<hr/>
Instruction		
Regular	\$3,443,707	\$3,362,173
Special	955,751	790,891
Vocational	54,166	54,166
Support Services:		
Pupils	410,961	363,820
Instructional Staff	457,200	409,102
Board of Education	67,410	67,410
Administration	687,433	682,917
Fiscal	349,009	344,009
Business	2,128	2,128
Operation and Maintenance	1,017,851	1,017,802
Pupil Transportation	356,182	356,182
Central	78,238	69,238
Operation of Non-Instructional Services	147,123	26,683
Extracurricular Activities	375,560	222,383
Interest and Fiscal Charges	21,602	21,602
<i>Total</i>	<hr/> <hr/> \$8,424,321	<hr/> <hr/> \$7,790,506

Mogadore Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 46 percent of total costs are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 26 percent of total costs, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 7.5 percent of all governmental expenses.

School District's Funds

Information regarding the School District's major funds can be found on page 23 & 24 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources totaled \$7,850,177 and expenditures and other financing uses totaled \$8,580,241. The General Fund balance decreased by \$582,408.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$7,723,500; modifications were made to the property tax revenues based on modified property valuations. The final budget basis expenditures estimate totaled \$8,453,753 compared to original estimates of \$8,106,719. Part of the increased budget can be attributed to purchasing an additional school bus as well as additional capital improvements made during the fiscal year.

The School District's unencumbered ending cash balance totaled \$5,403,785, which was above the original budgeted amount, due to lower actual expenditures than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the School District had \$1,698,812 invested in land, buildings and improvements, furniture and fixtures, vehicles, net of accumulated depreciation. Table 4 shows fiscal 2004 values compared to 2003.

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

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

	<i>Governmental Activities</i>	
	<i>2004</i>	<i>2003</i>
Land and Improvements	\$1,201,609	\$1,201,609
Construction in Progress	0	0
Buildings and Improvements	2,371,378	2,371,378
Furniture and Fixtures	1,329,122	1,288,200
Vehicles	429,183	323,683
Accumulated Deprecation	(3,632,480)	(3,466,474)
<i>Totals</i>	\$1,698,812	\$1,718,396

All capital assets are reported at historical cost. For more information on capital assets refer to Note 9 of the basic financial statements.

Debt

At June 30, 2004 the School District had \$250,000 in bonded debt outstanding. Table 5 below summarizes the School District's debt outstanding.

Table 5
Outstanding Debt, at June 30

	<i>Governmental Activities</i>	
	<i>2004</i>	<i>2003</i>
School Improvement Bonds	\$15,000	\$20,000
Energy Conservation Improvement Bonds	235,000	305,000
<i>Totals</i>	\$250,000	\$325,000

The bonds will be repaid by December 1, 2006.

School District Outlook

Mogadore Local Schools has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

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

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong. The School District is expecting to have a positive general fund balance through the end of the 2006 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2006 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

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

The School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at a rate of 2.2 percent per year for future years, however the cost of doing business factor has been eliminated when computing state funding which will have negative effect on the funds received from the State. The affect of a property reappraisal will have a negative affect on the State's share of per pupil funding. With 51 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Mr. Chris Adams, Treasurer, at Mogadore Local School District, 1 S Cleveland Ave., Mogadore, Ohio 44260, or call 330-628-9946.

Mogadore Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental</u> <u>Activities</u>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$6,126,922
Cash and Cash Equivalents in Segregated Accounts	2,499
Inventory Held for Resale	4,029
Accrued Interest Receivable	12,202
Accounts Receivable	9,421
Other Receivable	5,121
Intergovernmental Receivable	42,580
Taxes Receivable	4,775,615
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	31,768
Non-Depreciable Capital Assets	98,050
Depreciable Capital Assets, net	1,600,762
<i>Total Assets</i>	<u>12,708,969</u>
<i>Liabilities</i>	
Accounts Payable	119,173
Accrued Wages and Benefits	483,825
Intergovernmental Payable	185,717
Accrued Vacation Payable	14,718
Accrued Interest Payable	973
Unearned Revenue	4,369,328
<i>Long-Term Liabilities:</i>	
Due Within One Year	212,514
Due in More Than One Year	626,311
<i>Total Liabilities</i>	<u>6,012,559</u>
<i>Net Assets</i>	
Invested in Capital Assets, Net of Related Debt	1,357,237
Restricted for Capital Outlay	199,523
Restricted for Other Purposes	133,680
Unrestricted	5,005,970
<i>Total Net Assets</i>	<u><u>\$6,696,410</u></u>

See Accompanying Notes to the Basic Financial Statements

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Mogadore Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net (Expenses)
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities			
Instruction:			
Regular	\$3,443,707	\$25,414	\$56,120
Special	955,751	0	164,860
Vocational	54,166	0	0
Support Services:			
Pupils	410,961	36,757	10,384
Instructional Staff	457,200	7,605	40,493
Board of Education	67,410	0	0
Administration	687,433	0	4,516
Fiscal	349,009	0	5,000
Business	2,128	0	0
Operation and Maintenance of Plant	1,017,851	0	49
Pupil Transportation	356,182	0	0
Central	78,238	0	9,000
Operation of Non-Instructional Services	147,123	58,627	61,813
Extracurricular Activities	375,560	143,138	10,039
Interest and Fiscal Charges	21,602	0	0
Totals	\$8,424,321	\$271,541	\$362,274
General Revenues			
Property Taxes Levied for General Purposes			3,914,847
Grants and Entitlements not Restricted to Specific Programs			2,175,961
Investment Earnings			80,428
Miscellaneous			874,738
Total General Revenues			7,045,974
Change in Net Assets			(744,532)
Net Assets Beginning of Year (Restated - See Note 3)			7,440,942
Net Assets End of Year			\$6,696,410

See Accompanying Notes to the Basic Financial Statements

Mogadore Local School District

*Balance Sheet
Governmental Funds
June 30, 2004*

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$5,773,005	\$353,918	\$6,126,923
Cash and Cash Equivalents in Segregated Accounts	0	2,499	2,499
Inventory Held for Resale	0	4,029	4,029
Accrued Interest Receivable	12,202	0	12,202
Accounts Receivable	9,421	0	9,421
Interfund Receivable	15,843	0	15,843
Intergovernmental Receivable	33,999	8,581	42,580
Taxes Receivable	4,499,037	276,578	4,775,615
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	31,768	0	31,768
<i>Total Assets</i>	<u>\$10,375,275</u>	<u>\$645,605</u>	<u>\$11,020,880</u>
<i>Liabilities</i>			
Accounts Payable	\$90,367	\$28,806	\$119,173
Accrued Wages and Benefits	475,994	7,831	483,825
Interfund Payable	0	10,722	10,722
Intergovernmental Payable	114,868	1,536	116,404
Deferred Revenue	4,250,516	261,520	4,512,036
<i>Total Liabilities</i>	<u>4,931,745</u>	<u>310,415</u>	<u>5,242,160</u>
<i>Fund Balances</i>			
Reserved for Encumbrances	323,885	156,077	479,962
Reserved for Property Taxes	248,521	15,058	263,579
Reserved for Budget Stabilization	31,768	0	31,768
Unreserved, Designated:			
Designated for Budget Stabilization	290,434	0	290,434
Unreserved, Undesignated, Reported in:			
General Fund	4,548,922	0	4,548,922
Special Revenue Funds	0	126,573	126,573
Capital Projects Funds	0	37,482	37,482
<i>Total Fund Balances</i>	<u>5,443,530</u>	<u>335,190</u>	<u>5,778,720</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,375,275</u>	<u>\$645,605</u>	<u>\$11,020,880</u>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances \$5,778,720

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 1,698,812

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:
 Property Taxes 142,708

Intergovernmental Payable includes contractually required
 pension obligations not expected to be paid with expendable
 available financial resources and therefore not reported in the funds. (69,314)

In the statement of activities, interest is accrued on outstanding bonds and
 capital leases, whereas in governmental funds, an interest expenditure
 is reported when due. (973)

Long-term liabilities, including bonds payable and capital leases payable, are
 not due and payable in the current period and therefore are not reported
 in the funds:

General Obligation Bonds	(\$250,000)
Compensated Absences	(511,968)
Capital Leases Payable	(91,575)
	(853,543)

Total (853,543)

Net Assets of Governmental Activities \$6,696,410

See Accompanying Notes to the Basic Financial Statements

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$3,687,887	\$232,221	\$3,920,108
Intergovernmental	2,152,703	360,030	2,512,733
Interest	80,330	98	80,428
Tuition and Fees	846,829	26,695	873,524
Rent	0	0	0
Extracurricular Activities	0	186,219	186,219
Gifts and Donations	9,500	18,822	28,322
Customer Sales and Services	0	58,627	58,627
Miscellaneous	11,056	6,680	17,736
Total Revenues	<u>6,788,305</u>	<u>889,392</u>	<u>7,677,697</u>
Expenditures			
Current:			
Instruction:			
Regular	3,183,187	168,255	3,351,442
Special	768,653	173,061	941,714
Vocational	57,853	0	57,853
Support Services:			
Pupils	364,278	50,293	414,571
Instructional Staff	382,004	59,683	441,687
Board of Education	67,934	0	67,934
Administration	614,313	6,495	620,808
Fiscal	332,253	10,972	343,225
Business	2,128	0	2,128
Operation and Maintenance of Plant	761,696	221,845	983,541
Pupil Transportation	514,993	0	514,993
Central	61,927	16,311	78,238
Operation of Non-Instructional Services	0	149,973	149,973
Extracurricular Activities	183,123	156,123	339,246
Capital Outlay	0	0	0
Debt Service:			
Principal	15,576	75,000	90,576
Interest and Fiscal Charges	5,949	16,015	21,964
Total Expenditures	<u>7,315,867</u>	<u>1,104,026</u>	<u>8,419,893</u>
Excess of Revenues (Under) Expenditures	<u>(527,562)</u>	<u>(214,634)</u>	<u>(742,196)</u>
Other Financing Sources (Uses)			
Transfers In	4,779	160,348	165,127
Proceeds from the Sale of Capital Assets	7,353	0	7,353
Transfers Out	(66,978)	(93,370)	(160,348)
Total Other Financing Sources (Uses)	<u>(54,846)</u>	<u>66,978</u>	<u>12,132</u>
Net Change in Fund Balances	<u>(582,408)</u>	<u>(147,656)</u>	<u>(730,064)</u>
Fund Balances Beginning of Year- (Restated - See Note 3)	<u>6,025,938</u>	<u>482,846</u>	<u>6,508,784</u>
Fund Balances End of Year	<u><u>\$5,443,530</u></u>	<u><u>\$335,190</u></u>	<u><u>\$5,778,720</u></u>

See Accompanying Notes to the Basic Financial Statements

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

Net Change in Fund Balances - Total Governmental Funds (\$730,064)

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

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	\$214,739	
Depreciation	(234,323)	
<i>Total</i>		(19,584)

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds. (5,261)

Repayment of bond and capital leases principal is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in
the statement of net assets. 90,576

Accrued Interest expenses reported in the statement of activities do not require
the use of current financial resources and therefore are not reported as expenditures
in governmental funds. 362

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 the governmental funds.

Pension Contributions	(\$18,868)	
Compensated Absences	(56,914)	
<i>Total</i>		(75,782)

The internal service fund used by management to charge the costs of
health insurance is included in the statement of activities and not on the
governmental fund expenditures. This is the amount that revenues exceeded
expenses during the year. (4,779)

Changes in Net Assets of Governmental Activities (\$744,532)

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Property Taxes	\$4,595,900	\$4,665,900	\$4,330,143	(\$335,757)
Intergovernmental	1,927,600	1,927,600	2,118,704	191,104
Interest	85,100	85,100	97,281	12,181
Tuition and Fees	1,012,900	1,012,900	876,208	(136,692)
Gifts and Donations	26,000	26,000	9,500	(16,500)
Miscellaneous	6,000	6,000	1,635	(4,365)
Total Revenues	7,653,500	7,723,500	7,433,471	(290,029)
Expenditures				
Current:				
Instruction:				
Regular	3,346,118	3,409,020	3,181,458	227,562
Special	822,700	860,981	802,478	58,503
Adult/Continuing	61,372	64,242	59,979	4,263
Support Services:				
Pupils	517,770	548,890	362,857	186,033
Instructional Staff	481,784	496,232	461,226	35,006
Board of Education	108,329	108,329	75,298	33,031
Administration	625,911	648,021	617,134	30,887
Fiscal	312,786	334,676	333,621	1,055
Business	10,157	10,157	3,030	7,127
Operation and Maintenance of Plant	948,932	1,004,482	910,443	94,039
Pupil Transportation	607,825	652,485	582,596	69,889
Central	70,952	104,452	77,872	26,580
Extracurricular Activities	170,558	190,261	189,481	780
Debt Service:				
Principal	15,576	15,576	15,576	0
Interest and Fiscal Charges	5,949	5,949	5,949	0
Total Expenditures	8,106,719	8,453,753	7,678,998	774,755
Excess of Revenues (Under) Expenditures	(453,219)	(730,253)	(245,527)	484,726
Other Financing Sources and Uses				
Transfers In	61,900	61,900	4,779	(57,121)
Proceeds from Sale of Fixed Assets	1,000	1,000	7,353	6,353
Advances In	2,500	4,072	5,610	1,538
Transfers Out	(87,000)	(83,745)	(66,978)	16,767
Refund of Prior Year Receipts	(1,700)	(1,700)	0	1,700
Advances Out	(66,000)	(6,855)	(4,822)	2,033
Total Other Financing Sources and Uses	(89,300)	(25,328)	(54,058)	(28,730)
Net Change in Fund Balances	(542,519)	(755,581)	(299,585)	455,996
Fund Balance Beginning of Year	5,327,356	5,327,356	5,327,356	0
Prior Year Encumbrances Appropriated	376,014	376,014	376,014	0
Fund Balance End of Year	\$5,160,851	\$4,947,789	\$5,403,785	\$455,996

See Accompanying Notes to the Basic Financial Statements

Mogadore Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	<i>Governmental Activities Internal Service Fund</i>
Transfer Out	(\$4,779)
<i>Net Change in Net Assets</i>	(4,779)
<i>Net Assets at Beginning of Year</i>	4,779
<i>Net Assets at End of Year</i>	\$0

See Accompanying Notes to the Basic Financial Statement:

Mogadore Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	<i>Agency Fund</i>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$32,064
<i>Total Assets</i>	\$32,064
 <i>Liabilities</i>	
Accounts Payable	\$1,367
Interfund Payable	5,121
Due to Students	25,576
<i>Total Liabilities</i>	\$32,064

See Accompanying Notes to the Basic Financial Statements

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

Note 1 - Description of the School District and Reporting Entity

Mogadore Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or Federal guidelines.

The School District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately four square miles. It is located in Summit and Portage Counties, and includes the entire Village of Mogadore and portions of Suffield Township. It is staffed by 39 non-certificated employees and 66 certificated personnel who provide services to 901 students and other community members. The School District operates three instructional buildings and one bus garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the School District.

The School District is associated with organizations which are defined as a jointly governed organizations and public entity risk pools. These organizations include the Northeast Ohio Network for Educational Technology, Maplewood Joint Vocational School, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Stark County Schools Council of Government Health Benefits Program and Ohio School Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements

Note 2 - Summary of Significant Accounting Policies

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

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

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds reflect resources that belong to the student bodies of the various schools, accounting for sales and other revenue generating activities. The School District only has agency funds.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

D. Basis of Accounting

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Expenditures/Expenses On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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 appropriation 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 major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated revenues establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control set by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final certificate of estimated resources issued during fiscal year 2004.

The appropriation resolution is subject to amendment by the Board of Education throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during fiscal year 2004.

F. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to repurchase agreements, STAROhio, federal agency instruments and nonnegotiable certificates of deposit. Repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

As authorized by State statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund and food service fund during fiscal year 2004 amounted to \$80,330 and \$98, respectively. The general fund interest includes \$4,614 assigned from other School District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of donated and purchased food, and supplies held for consumption and are expensed when used.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchases of textbooks and other instructional materials and creates a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District capitalization threshold is \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

J. Capital Assets (continued)

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Buildings Improvements	20 to 50 years
Furniture and Fixtures	5 – 20 years
Vehicles	10 years

K. Interfund Balances

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

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

M. 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, special termination benefits 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 normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. Fund Balance Reserves

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

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

P. Interfund Activity

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

Q. Estimates

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

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 School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

A. Changes in Accounting Principles

For fiscal year 2004, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2004, there was no effect on fund balance as a result of implementing GASB statement 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

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

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

B. Restatement of Fund Balance

The new standards for reporting fund obligations for compensated absences in Interpretation 6 caused changes in previously reported fund balances. The food service fund was reclassified from an Enterprise fund to a Special Revenue Fund, causing a change in the fund balances. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (continued)

B. Restatement of Fund Balance (continued)

	<i>General</i>	<i>Nonmajor</i>	<i>Total</i>
<i>Fund Balance June 30, 2003</i>	\$6,011,198	\$460,389	\$6,471,587
GASB 34 Change in Fund Structure	0	18,214	18,214
GASB 6 Compensated Absences	14,740	4,243	18,983
Restated Fund Balances, June 30, 2003	\$6,025,938	\$482,846	6,508,784
<i>GASB 34 Adjustments:</i>			
Taxes Receivable Deferred			147,968
Capital Assets			1,718,396
Internal Service Fund			4,779
Long-Term Liabilities:			
Pension Obligations			(50,445)
Capital Lease Obligations			(107,151)
Bonded Debt			(325,000)
Accrued Interest Expense			(1,335)
Compensated Absences			(455,054)
<i>Governmental Activities Net Assets, June 30, 2003</i>			\$7,440,942

Note 4 – Fund Deficits

The following funds had deficit fund balances at June 30, 2004:

<i>Fund</i>	<i>Amount</i>
Special Revenue Funds:	
Miscellaneous State	\$300
Drug Free	2,437

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 deficit 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 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles are that:

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 5 - Budgetary Basis of Accounting (continued)

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

	<i>General</i>
<i>GAAP Basis</i>	(\$582,408)
Net Adjustment for Revenues	645,166
Advances In	5,610
Net Adjustment for Expenditures	44,173
Advances Out	(4,822)
Adjustment for Encumbrances	(407,304)
<i>Budget Basis</i>	(\$299,585)

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits 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 or deposit accounts, including passbook accounts.

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 6 - Deposits and Investments (continued)

Interim monies may be invested in the following securities:

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

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

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was (\$30,518) and the bank balance was \$9,102. The entire bank balance was covered by federal depository insurance. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 6 - Deposits and Investments (continued)

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

	<i>Category 3</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
STAROhio		\$434,595	\$434,595
Repurchase Agreement	\$565,000	565,000	565,000
Federal National Mortgage Association	2,623,150	2,623,150	2,623,150
Federal Home Loan Bank	2,577,236	2,577,236	2,577,236
Money Market	23,790	23,790	23,790
<i>Totals</i>	<i>\$5,789,176</i>	<i>\$6,223,771</i>	<i>\$6,223,771</i>

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, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and investments on the basic financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$6,193,253	\$0
Investments which are part of the cash management pool:		
Repurchase Agreement	(565,000)	565,000
STAROhio	(434,595)	434,595
Federal National Mortgage Association	(2,623,150)	2,623,150
Federal Home Loan Bank	(2,577,236)	2,577,236
Money Market	(23,790)	23,790
<i>GASB Statement No. 3</i>	<i>(\$30,518)</i>	<i>\$6,223,771</i>

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 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 statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the values 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. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable includes delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were 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 \$263,579 and is recognized as revenue. \$248,521 was available to the general fund and \$15,058 was available to the permanent improvement 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.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 7 - Property Taxes

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

	<i>2003 Second Half Collections</i>		<i>2004 First Half Collections</i>	
	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>
Agricultural/Residential and Other Real Estate	\$77,944,220	68.51%	\$81,918,480	70.31%
Public Utility Personal	2,780,420	2.44	2,782,060	2.38
Tangible Personal Property	33,048,149	29.05	31,807,274	27.31
	\$113,772,789	100.00%	\$116,507,814	100.00%
Tax Rate per \$1,000 of assessed valuation	\$67.50		\$67.50	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, tuition and fees), intergovernmental grants, accrued interest, and interfunds. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<i>Amounts</i>
Tuition	\$28,215
Refund	5,784
Grants	8,581
<i>Total Intergovernmental Receivables</i>	\$42,580

Note 9 - Capital Assets

Due to the implementation of GASB 34, the capital asset balances of the governmental activities have been restated as follows:

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 9 - Capital Assets (continued)

	<i>Balance at 6/30/03</i>	<i>Adjustments</i>	<i>Restated Balance at 6/30/03</i>
<i>Governmental Activities:</i>			
<i>Capital Assets, not being depreciated:</i>			
Land and Land Improvements	\$98,050	\$0	\$98,050
Total Capital Assets, not being depreciated	\$98,050	0	98,050
<i>Capital Assets, being depreciated:</i>			
Land Improvements	1,103,559	0	1,103,559
Buildings and Buildings Improvements	2,371,378	0	2,371,378
Furniture and Fixtures	1,288,200	0	1,288,200
Vehicles	323,683	0	323,683
Total Capital Assets, being depreciated	5,086,820	0	5,086,820
<i>Less Accumulated Depreciation:</i>			
Land Improvements	(0)	(854,185)	(854,185)
Buildings and Building Improvements	(0)	(1,480,892)	(1,480,892)
Furniture and Fixtures	(26,846)	(829,601)	(856,447)
Vehicles	(0)	(274,950)	(274,950)
Total Accumulated Depreciation	(26,846)	(3,439,628)	(3,466,474)
Governmental Activities Capital Assets, Net	\$5,158,024	(3,439,628)	\$1,718,396

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

	<i>Restated Balance at 6/30/03</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/04</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$98,050	\$0	\$0	\$98,050
Total Capital Assets, not being depreciated	98,050	0	0	98,050
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,103,559	0	0	1,103,559
Buildings and Buildings Improvements	2,371,378	0	0	2,371,378
Furniture and Fixtures	1,288,200	47,523	(6,601)	1,329,122
Vehicles	323,683	167,216	(61,716)	429,183
Total Capital Assets, being depreciated	5,086,820	214,739	(68,317)	5,233,242
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(854,185)	(97,125)	0	(951,310)
Buildings and Buildings Improvements	(1,480,892)	(41,118)	0	(1,522,010)
Furniture and Fixtures	(856,447)	(80,737)	6,601	(930,583)
Vehicles	(274,950)	(15,343)	61,716	(228,577)
Total Accumulated Depreciation	(3,466,474)	(234,323)	68,317	(3,632,480)
Governmental Activities Capital Assets, Net	\$1,718,396	\$7,917,670	(\$639,481)	\$1,698,812

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 9 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$75,089
Special	1,282
Vocational	59
Support Services:	
Pupil	1,825
Instructional Staff	6,686
Administration	12,513
Fiscal	1,065
Operation and Maintenance of Plant	58,453
Pupil Transportation	11,176
Operation of Non-Instructional Services	2,128
Extracurricular Activities	<u>64,047</u>
Total Depreciation Expense	<u><u>\$234,323</u></u>

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the School District contracted with the Broderick Insurance Agency for fleet, property and inland marine insurance coverage. Liability coverage is provided by the Ohio School Plan (OSP). Coverages are as follows:

	<u>Coverage</u>	<u>Deductible</u>
Buildings and Contents	\$18,875,347	\$500
Inland Marine Coverage	91,305	25
Boiler and Machinery	18,018,963	1,000
Automobile Liability	1,000,000	100 - 500
Uninsured Motorists	1,000,000	100 - 500
Crime Insurance	5,000	25
General Liability:		
Per Occurrence	1,000,000	0
Aggregate	3,000,000	0

Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (G.P.), an insurance purchasing pool (Note 17). The intent of the G.P. is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the G.P. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the G.P. Each participant pays its workers' compensation premium to the State based on the rate for the G.P. rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the G.P. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the G.P. Participation in the G.P. is limited to school districts that can meet the G.P.'s selection criteria. The firm of Sheakley Unicorp Inc. provides administrative, cost control and actuarial services of the G.P.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 10 - Risk Management (continued)

The School District changed from a self insured internal service fund to a premium based insurance plan during fiscal year 1995. During the fiscal year 2004, the school district transferred the balance of the internal service fund of \$4,778 to the general fund since all claims had been paid.

The School District has contracted with the Stark County Schools Council's Health Benefits Program to provide employee medical/surgical and dental benefits. The Stark County Schools Council's Health Benefits Program is a shared risk pool comprised of 40 members. Rates are set through an annual calculation process. The School District pays a monthly contribution which is paid in a common fund from which claim payments are made for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting school district subsequent to the settlements of all expenses and claims. The School District pays premiums of \$774.22 for family coverage and \$318.00 for single coverage per employee per month.

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified, full-time administrators and non-bargaining unit employees earn 10 to 25 days of vacation per year, depending upon length of service and hours worked. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and principals do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit as to the amount of sick leave that may be accumulated. Upon retirement employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 60 days

B. Life Insurance

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

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 12 - Defined Benefit Pension Plans (continued)

A. State Teachers Retirement System (continued)

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% 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were \$400,013, \$411,789, and \$279,230, respectively; equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002, 83 percent has been contributed for 2004, with the remainder being presented as "intergovernmental payable" in the statement of net assets.

B. School Employees Retirement System

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 12 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$79,391, \$73,039, and \$35,040, respectively; the full amount has been contributed for fiscal year 2003 and 2002, 51 percent has been contributed for fiscal year 2004, with the remainder being presented as "intergovernmental payable" in the statement of net assets.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$30,770, for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 13 - Postemployment Benefits (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including surcharge, equaled \$63,221 during the 2004 fiscal year.

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

Note 14 - Capital Leases

The School District has entered into a capitalized lease for phone equipment and copiers. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership of the lessee.

Capital assets consisting of furniture and fixtures have been capitalized in the amount of \$147,930. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2004 totaled \$21,525 in the general fund. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

<i>Fiscal Year Ending June 30,</i>	<i>Amount</i>
2005	\$21,525
2006	21,525
2007	21,525
2008	21,525
2009	19,732
<i>Total</i>	105,832
Less: Amount Representing Interest	(14,257)
<i>Present Value of Net Minimum</i>	\$91,575

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 15- Long-Term Obligations

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

	<i>Balance</i>			<i>Balance</i>	<i>Amounts Due</i>
	<i>6/30/03</i>	<i>Additions</i>	<i>Deductions</i>	<i>6/30/04</i>	<i>In One Year</i>
<i>Compensated Absences</i>	\$439,890	\$57,360	\$0	\$497,250	\$115,987
<i>Capital Leases</i>	107,151	0	(15,576)	91,575	16,527
<i>Energy Conservation Improvement Bond</i>	<u>325,000</u>	<u>0</u>	<u>(75,000)</u>	<u>250,000</u>	<u>80,000</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u><u>\$872,041</u></u>	<u><u>\$57,360</u></u>	<u><u>(\$90,576)</u></u>	<u><u>\$838,825</u></u>	<u><u>\$212,514</u></u>

Compensated absences will be paid from the fund from which employee's are paid. The capital leases will be paid from the general fund. The energy conservation improvement bond will be paid from the debt service fund. The School District overall debt limitation was \$10,245,703 at June 30, 2004.

The following is a summary of the School District's future annual principal and interest requirements to retire the general obligation bonds and note:

<i>Fiscal Year</i>	<i>Energy Conservation Bonds</i>	
<i>Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
<i>2005</i>	\$80,000	\$11,675
<i>2006</i>	85,000	7,055
<i>2007</i>	<u>85,000</u>	<u>2,337</u>
<i>Total</i>	<u><u>\$250,000</u></u>	<u><u>\$21,067</u></u>

Note 16 - Jointly Governed Organizations

A. Northeast Ohio Network for Educational Technology

The School District is a participant in the Northeast Ohio Network for Educational Technology (NEOnet) which is a computer consortium. NEOnet is a jointly governed organization among 17 School Districts located within the boundaries of Portage and Summit Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. NEOnet is governed by an assembly consisting of superintendents or other designees from participating school districts. The assembly exercises total control over the operation of NEOnet including budgeting, appropriating, contracting and designating management. All the NEOnet revenues are generated from charges for services and state funding. To obtain financial information write NEOnet, 420 Washington Ave., Cuyahoga Falls, Ohio 44221.

B. Maplewood Joint Vocational School

The Maplewood Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the ten participating school district's elected boards, which possess its own budgeting and taxing authority. To obtain financial information write to the Maplewood Joint Vocational School, 7075 State Route 88, Ravenna, Ohio 44266.

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 17 - Public Entity Risk Pools

A. Stark County Schools Council of Government

The Stark County Schools Council of Government (Council) is a shared risk pool which is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services. The Council has a Health Benefits Program which is a shared risk pool comprised of 15 Stark County school districts and a Workers Compensation Group Rating Program (GRP), an insurance purchasing pool. Each year, the participating school districts pay enrollment fees to the GRP's to cover the costs of administering the program.

B. Ohio School Plan

The Ohio School Plan (Plan) is a shared liability, property and fleet insurance risk pool which is governed by a board of thirteen school superintendents, business managers and treasurers. Harcum-Hyre, the insurance agency, has one board seat. OSBA, BASA and OASBO executive directors serve as ex-officio members. 450 educational entities are served by the Plan. The Plan's board elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Plan. All Plan revenues are generated from charges for services. For more information write to The Ohio School Plan, Harcum-Hyre Insurance Agency, Inc., 246 Sycamore Street, Columbus, Ohio 43206.

C. Ohio School Boards Association Worker's Compensation Group

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

Note 18 - Contingencies

The School District receives financial assistance from federal and state 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Note 19 - State School Funding Issue

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

Mogadore Local School District
Notes to the Basic Financial Statements (continued)
For the Fiscal Year Ended June 30, 2004

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purpose in future years.

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

	<i>Textbooks</i>	<i>Capital Acquisition</i>
<i>Set-Aside Cash Balance as of June 30, 2003</i>	\$0	\$0
Current Year Set-Aside Requirement	121,523	121,523
Qualifying Disbursements	121,523	121,523
<i>Total</i>	\$0	\$0
<i>Set-Aside Cash Balance as of June 30, 2004</i>	\$0	\$0

Although no longer required by State statute, a budget stabilization reserve may still be set aside at the discretion of the school district. The budget stabilization reserve consists of the amount received from the Bureau of Worker's Compensation (BWC) in the form of refunds. The amount received from the BWC amounted to \$31,768.

Note 21 – Interfund Transactions

Balance sheet interfund balances at June 30, 2004, consist of the following:

<i>Fund</i>	<i>Receivable</i>	<i>Payable</i>
General	\$15,843	\$0
<i>Other Governmental Funds:</i>		
Uniform School Supplies	0	2,295
Public School Support	0	4,986
Drug Free	0	3,441
<i>Total Other Governmental Funds</i>	0	10,722
Student Activities Agency Fund	0	5,121
Total All Funds	\$15,843	\$15,843

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

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.

January 20, 2006

To the Board of Education
Mogadore Local School District
Summit County, Ohio

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mogadore Local School District as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 20, 2006, which included an explanatory paragraph regarding the accounting change to GASB 34. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mogadore Local School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 we have reported to management of Mogadore Local School District in a separate letter dated January 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mogadore Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Mogadore Local School District in a separate letter dated January 20, 2006.

This report is intended solely for the information and use of by the Board of Education and management, and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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**MOGADORE LOCAL SCHOOL DISTRICT
SUMMIT 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
APRIL 17, 2006**