



**Auditor of State
Betty Montgomery**

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Mount Gilead Exempted Village School District
Morrow County
145 ½ North Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

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

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

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 22, 2005

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$133,315 which represents a 2.65% decrease from 2003.
- General revenues accounted for \$10,472,789 in revenue or 84.4% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,927,011 or 15.60% of total revenues of \$12,399,800.
- The District had \$12,533,115 in expenses related to governmental activities; \$1,927,011 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,472,789 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$10,069,578 in revenues and \$10,142,977 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$73,399 from \$290,976 to \$217,577.
- The debt service fund had \$2,898,965 in revenues and other financing sources and \$2,707,690 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$191,275 from \$542,427 to \$733,702.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical, dental and vision self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 6,244,981
Capital assets, net	<u>13,617,280</u>
Total assets	<u>19,862,261</u>
<u>Liabilities</u>	
Current liabilities	4,631,033
Long-term liabilities	<u>10,334,999</u>
Total liabilities	<u>14,966,032</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,142,295
Restricted	892,841
Unrestricted	<u>(1,138,907)</u>
Total net assets	<u>\$ 4,896,229</u>

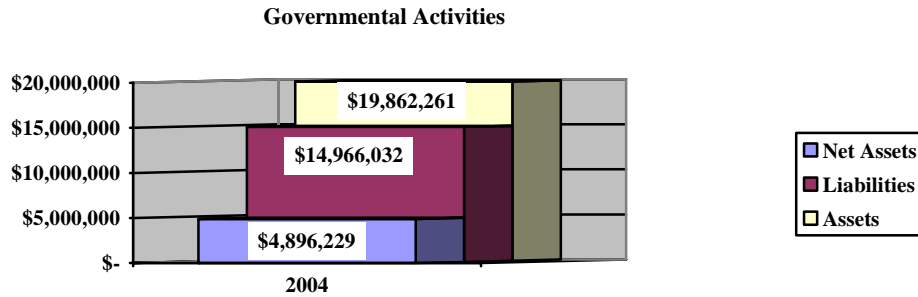
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$4,896,229. Of this total, \$(1,138,907) is unrestricted in use.

At year-end, capital assets represented 68.56% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$5,142,295. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)

A portion of the District's net assets, \$892,841, represents resources that are subject to external restriction on how they may be used. Based on the required restrictions noted above a (\$1,138,907) balance of unrestricted net assets is reported.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,020,157
Operating grants and contributions	906,854
General revenues:	
Property taxes	3,338,795
Income taxes	791,769
Grants and entitlements	5,917,467
Investment earnings	22,740
Other	<u>402,018</u>
 Total revenues	 <u>12,399,800</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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(Continued)

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,827,673
Special	1,156,406
Vocational	395,274
Other	669,217
Support services:	
Pupil	521,871
Instructional staff	766,717
Board of education	56,929
Administration	816,695
Fiscal	331,270
Operations and maintenance	1,420,881
Pupil transportation	384,837
Central	7,693
Food service operations	376,287
Operations of non-instructional services	5,463
Extracurricular activities	349,493
Intergovernmental pass-through	606
Interest and fiscal charges	<u>445,803</u>
Total expenses	<u>12,533,115</u>
Change in net assets	(133,315)
Net assets at beginning of year	<u>5,029,544</u>
Net assets at end of year	<u><u>\$ 4,896,229</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$133,315. Total governmental expenses of \$12,533,115 were primarily offset by program revenues of \$1,927,011 and general revenues of \$10,472,789. Program revenues supported 15.38% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 84.40% of total governmental revenue.

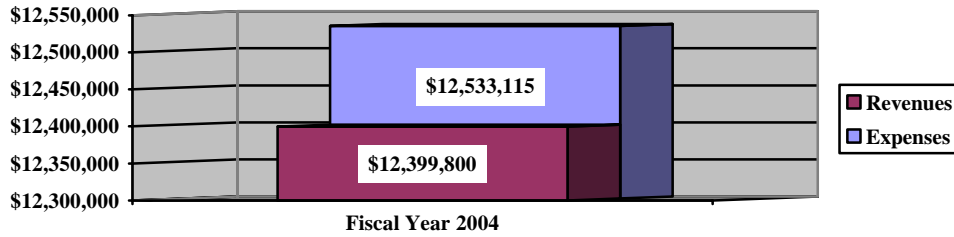
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,048,570 or 56.24% of total governmental expenses for fiscal 2004.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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(Continued)

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

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

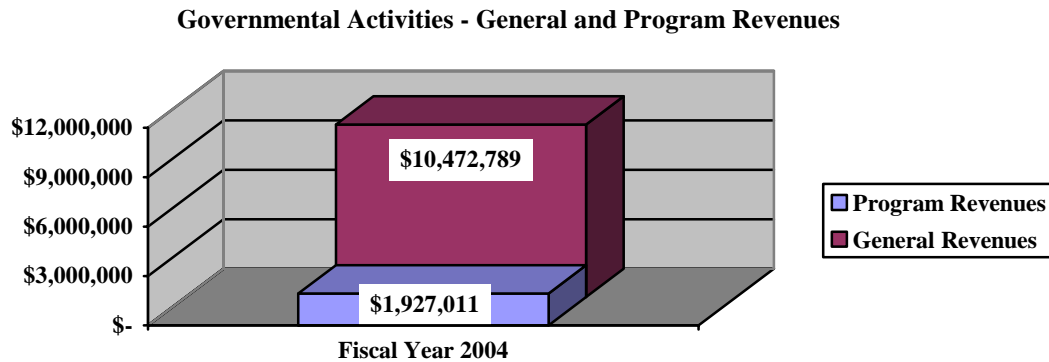
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 4,827,673	\$ 3,979,765
Special	1,156,406	888,372
Vocational	395,274	395,274
Other	669,217	669,217
Support services:		
Pupil	521,871	504,374
Instructional staff	766,717	585,067
Board of education	56,929	56,929
Administration	816,695	726,226
Fiscal	331,270	329,148
Operations and maintenance	1,420,881	1,415,929
Pupil transportation	384,837	383,981
Central	7,693	7,693
Food service operations	376,287	20,574
Operations of non-instructional services	5,463	(1,607)
Extracurricular activities	349,493	198,753
Intergovernmental	606	606
Interest and fiscal charges	445,803	445,803
Total expenses	<u>\$ 12,533,115</u>	<u>\$ 10,606,104</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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(Continued)

The dependence upon tax and other general revenues for governmental activities is apparent, 84.17% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.57%. The District's taxpayers, and the State of Ohio, as a whole, are by far the primary supports for District's students.

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,011,828, which is higher than last year's total of \$925,022. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ 217,577	\$ 290,976	\$ (73,399)	(25.23) %
Other Governmental	733,702	542,427	191,275	35.26 %
Other Governmental	<u>60,549</u>	<u>91,619</u>	<u>(31,070)</u>	(33.91) %
Total	<u>\$ 1,011,828</u>	<u>\$ 925,022</u>	<u>\$ 86,806</u>	9.38 %

General Fund

The District's general fund balance decreased \$73,399 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to increasing revenues still not catching up to increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$62,360. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,319,780	\$ 3,191,179	\$ 128,601	4.03 %
Tuition	552,013	249,340	302,673	121.39 %
Earnings on investments	20,296	36,039	(15,743)	(43.68) %
Intergovernmental	5,782,994	5,664,739	118,255	2.09 %
Other revenues	<u>394,495</u>	<u>247,718</u>	<u>146,777</u>	59.25 %
Total	<u>\$10,069,578</u>	<u>\$ 9,389,015</u>	<u>\$ 680,563</u>	7.25 %
<u>Expenditures</u>				
Instruction	\$ 6,154,054	\$ 5,815,046	\$ 339,008	5.83 %
Support services	3,780,060	3,863,548	(83,488)	(2.16) %
Extracurricular activities	174,855	187,358	(12,503)	(6.67) %
Debt service	<u>22,969</u>	<u>22,970</u>	<u>(1)</u>	(0.00) %
Total	<u>\$10,131,938</u>	<u>\$ 9,888,922</u>	<u>\$ 243,016</u>	2.46 %

Debt Service Fund

The debt service fund had \$2,898,965 in revenues and other financing sources and \$2,707,690 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$191,275 from \$542,427 to \$733,702.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,749,807 and final budgeted revenues and other financing sources were \$9,998,900. Actual revenues and other financing sources for fiscal 2004 was \$10,019,299. This represents a \$20,399 increase over final budgeted revenues.

General fund original and final appropriations were \$10,682,833. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$10,190,218, which was \$492,615 less than the final budget appropriations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$13,617,280 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 26,121	\$ 26,121
Land improvements	142,362	154,741
Building and improvements	12,289,993	12,499,237
Furniture and equipment	900,104	1,012,859
Vehicles	258,700	212,435
Library books	-	-
Total	<u>\$ 13,617,280</u>	<u>\$ 13,905,393</u>

The overall decrease in capital assets of \$288,113 is due to depreciation expense of \$398,713 exceeding capital outlays of \$110,600 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$7,683,846 in general obligation bonds and \$2,000,000 in a bond anticipation note outstanding. Of this total, \$2,280,000 is due within one year and \$7,403,846 is due within greater than one year. The following table summarizes the bonds and note outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
	General obligation bonds	\$ 7,683,846
Bond anticipation note	2,000,000	2,000,000
Total	<u>\$ 9,683,846</u>	<u>\$ 9,921,623</u>

At June 30, 2004, the District's overall legal debt margin was \$2,096,432, and an unvoted debt margin of \$124,236.

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

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MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Current Financial Related Activities

The District's financial future certainly has its challenges. The challenges are at both the local and state levels. Local and state challenges will continue with the District's heavy reliance on both for operational funds. Currently, the local and state tax dollars support forty and sixty percent of the operations, respectively.

Although the District relies heavily on its property taxpayers to support operations, the support for the school is very strong as evidenced by recent levy outcomes. Since 1999 the local taxpayers have supported the District by passing the following:

- 1999 – Renewal of a .75% Income Tax levy for a period of five years.
- 1999 – 4.7 mill Bond Issue in the principal amount of \$9,000,000.
- 2000 – Replacement of a 0.5 mill Permanent Improvement levy.
- 2003 – Renewal of a .75% Income Tax levy for a period of five years.
- 2004 – Replacement of a 0.75 mill Permanent Improvement levy.

These additional revenues supported by the bond and permanent improvement levies cost local taxpayers annually approximately \$720,000 and \$40,000, respectively.

The community last passed a new operating levy May 1994, for a period of five years. This Income Tax levy has subsequently been renewed twice. This is currently the only fixed term operating levy the District collects.

The District's five-year forecast is certainly challenging. In efforts to avoid any projected deficit, the District has implemented approximately seven hundred thousand dollars in budget cuts over the last two school years and is looking to cut an additional three hundred thousand dollars out of the upcoming school year. In addition, the School District has placed a new .75% Income Tax levy on the May 2005 ballot in an effort to limit any further academic cuts.

The following factors are causing the District to make the above-mentioned budgetary cuts and return to the voters for additional operating monies:

- Bankruptcy and closing of local manufacturing plant.
- State legislators phasing out inventory portion of Personal Property Tax.
- State Legislators phasing out Personal Property Tax Exemption.
- State Legislators reducing the State Formula Per Pupil Funding increase.
- Reduction in investment income due to reduction in market rates.
- Increase in Health Insurance premiums
- Utility cost increase, primarily due to natural gas prices.
- Loss of revenues to community schools.
- Loss of revenues through open enrollment.
- Increase special education costs due to additional students.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education funding system, one that was neither 'adequate' nor 'equitable'. Since 1997 the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'adequate' nor 'equitable'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it was expected that the decision would result in an increase in overall State funding for education. On December 11, 2002, the Ohio Supreme Court issued another opinion regarding the State's school funding plan. The decision reaffirmed the earlier decisions that Ohio's current school funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what, if any, effect these decision will have on its future State funding, or financial operation.

The District has not anticipated any meaningful growth in State revenue.

As a result of the challenges mentioned above, it is imperative the District's management continue to carefully and prudently plan the future of this District in order to provide the necessary resources to meet the students need over the next few years.

Contacting the District Treasurer

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the School District's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Steve Earnest, Treasurer, at Mt. Gilead Exempted Village School District, 145 ½ North Cherry Street, Mt. Gilead, OH 43338, or e-mail Stephen_e@treca.org.

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government	Component Units	
	Governmental Activities	GOAL Digital Academy	Tommorrow Center
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 1,203,451	\$ 47,733	\$ 230,483
Cash with fiscal agent.	313,313		
Receivables:			
Taxes	4,521,622	-	-
Intergovernmental	183,114	13,845	125,000
Prepayments	11,474	-	1,940
Materials and supplies inventory	12,007	-	-
Capital assets:			
Land	26,121	-	-
Depreciable capital assets, net	13,591,159	126,731	47,435
Capital assets, net.	<u>13,617,280</u>	<u>126,731</u>	<u>47,435</u>
 Total assets.	 <u>19,862,261</u>	 <u>188,309</u>	 <u>404,858</u>
Liabilities:			
Accounts payable.	3,320	19,048	46,040
Accrued wages and benefits	1,023,022	-	-
Pension obligation payable.	257,289	-	-
Intergovernmental payable	91,690	10,702	-
Deferred revenue	2,914,418	-	-
Accrued interest payable	31,014	-	-
Claims payable	310,280	-	-
Long-term liabilities:			
Due within one year.	2,326,394	-	-
Due within more than one year	8,008,605	-	-
 Total liabilities	 <u>14,966,032</u>	 <u>29,750</u>	 <u>46,040</u>
Net Assets:			
Invested in capital assets, net of related debt.	5,142,295	126,731	47,435
Restricted for:			
Capital projects	38,116	-	-
Debt service.	854,725	-	-
Other purposes	-	2,171	30,196
Unrestricted (deficit)	<u>(1,138,907)</u>	<u>29,657</u>	<u>281,187</u>
 Total net assets	 <u>\$ 4,896,229</u>	 <u>\$ 158,559</u>	 <u>\$ 358,818</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenues		Primary Government	Component Units	
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	GOAL Digital Academy	Tommorrow Center
Governmental activities:						
Instruction:						
Regular	\$ 4,827,673	\$ 577,646	\$ 270,262	\$ (3,979,765)	\$ -	\$ -
Special	1,156,406	-	268,034	(888,372)	-	-
Vocational	395,274	-	-	(395,274)	-	-
Other	669,217	-	-	(669,217)	-	-
Support services:						
Pupil.	521,871	-	17,497	(504,374)	-	-
Instructional staff	766,717	-	181,650	(585,067)	-	-
Board of education	56,929	-	-	(56,929)	-	-
Administration.	816,695	81,990	8,479	(726,226)	-	-
Fiscal.	331,270	-	2,122	(329,148)	-	-
Operations and maintenance	1,420,881	4,952	-	(1,415,929)	-	-
Pupil transportation.	384,837	-	856	(383,981)	-	-
Central	7,693	-	-	(7,693)	-	-
Operation of non-instructional services:						
Food service operations	376,287	204,829	150,884	(20,574)	-	-
Other non-instructional services	5,463	-	7,070	1,607	-	-
Extracurricular activities.	349,493	150,740	-	(198,753)	-	-
Intergovernmental pass-through.	606	-	-	(606)	-	-
Interest and fiscal charges	445,803	-	-	(445,803)	-	-
Total governmental activities	<u>12,533,115</u>	<u>1,020,157</u>	<u>906,854</u>	<u>(10,606,104)</u>	<u>-</u>	<u>-</u>
Component Units:						
GOAL Digital Academy	363,848	-	160,341	-	(203,507)	-
Tommorrow Center	532,828	5,400	155,925	-	-	(371,503)
Total component units.	<u>896,676</u>	<u>5,400</u>	<u>316,266</u>	<u>-</u>	<u>(203,507)</u>	<u>(371,503)</u>
Totals	<u>\$ 13,429,791</u>	<u>\$ 1,025,557</u>	<u>\$ 1,223,120</u>	<u>(10,606,104)</u>	<u>(203,507)</u>	<u>(371,503)</u>
General Revenues:						
Property taxes levied for:						
General purposes				2,503,733	-	-
Debt service.				783,538	-	-
Capital projects				51,524	-	-
School district income tax				791,769	-	-
Grants and entitlements not restricted						
to specific programs.				5,917,467	244,229	475,479
Investment earnings				22,740	-	-
Miscellaneous				402,018	5,000	23,123
Total general revenues.				<u>10,472,789</u>	<u>249,229</u>	<u>498,602</u>
Change in net assets				(133,315)	45,722	127,099
Net assets at beginning of year (restated) .				<u>5,029,544</u>	<u>112,837</u>	<u>231,719</u>
Net assets at end of year				<u>\$ 4,896,229</u>	<u>\$ 158,559</u>	<u>\$ 358,818</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 472,194	\$ 599,083	\$ 128,212	\$ 1,199,489
Receivables:				
Taxes	3,558,543	901,669	61,410	4,521,622
Intergovernmental	71,116	-	111,998	183,114
Due from other funds	80,618	-	-	80,618
Prepayments	11,474	-	-	11,474
Materials and supplies inventory	-	-	12,007	12,007
Restricted assets:				
Equity in pooled cash and cash equivalents	3,962	-	-	3,962
Total assets	<u>\$ 4,197,907</u>	<u>\$ 1,500,752</u>	<u>\$ 313,627</u>	<u>\$ 6,012,286</u>
Liabilities:				
Accounts payable	\$ 620	\$ -	\$ 2,700	\$ 3,320
Accrued wages and benefits	933,443	-	89,579	1,023,022
Compensated absences payable	7,952	-	-	7,952
Pension obligation payable.	153,952	-	8,664	162,616
Intergovernmental payable.	78,083	1,203	12,404	91,690
Due to other funds	-	-	80,618	80,618
Deferred revenue.	2,806,280	765,847	59,113	3,631,240
Total liabilities	<u>3,980,330</u>	<u>767,050</u>	<u>253,078</u>	<u>5,000,458</u>
Fund Balances:				
Reserved for encumbrances	39,534	-	3,344	42,878
Reserved for materials and supplies inventory.	-	-	12,007	12,007
Reserved for prepayments	11,474	-	-	11,474
Reserved for property tax unavailable for appropriation	374,142	120,743	7,993	502,878
Reserved for school bus purchases	3,962	-	-	3,962
Reserved for debt service.	-	612,959	-	612,959
Unreserved, undesignated (deficit), reported in:				
General fund	(211,535)	-	-	(211,535)
Special revenue funds.	-	-	15,470	15,470
Capital projects funds.	-	-	21,735	21,735
Total fund balances	<u>217,577</u>	<u>733,702</u>	<u>60,549</u>	<u>1,011,828</u>
Total liabilities and fund balances	<u>\$ 4,197,907</u>	<u>\$ 1,500,752</u>	<u>\$ 313,627</u>	<u>\$ 6,012,286</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,011,828
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,617,280
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 710,064	
Intergovernmental revenue	6,758	
Total		716,822
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		3,033
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	643,201	
Pension obligation payable	94,673	
Bond anticipation notes payable	2,000,000	
General obligation bonds payable	7,683,846	
Accrued interest payable	31,014	
Total		(10,452,734)
Net assets of governmental activities		\$ 4,896,229

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,319,780	\$ 803,532	\$ 52,135	\$ 4,175,447
Tuition.	552,013	-	-	552,013
Charges for services.	-	-	204,829	204,829
Earnings on investments.	20,296	-	132	20,428
Extracurricular.	-	-	232,730	232,730
Classroom materials and fees	-	-	25,633	25,633
Other local revenues.	394,495	-	12,475	406,970
Intergovernmental - State.	5,782,994	95,433	374,834	6,253,261
Intergovernmental - Federal	-	-	577,116	577,116
Total revenue	<u>10,069,578</u>	<u>898,965</u>	<u>1,479,884</u>	<u>12,448,427</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,206,537	-	286,069	4,492,606
Special.	892,491	-	263,994	1,156,485
Vocational.	385,809	-	-	385,809
Other.	669,217	-	-	669,217
Support services:				
Pupil.	509,123	-	10,125	519,248
Instructional staff	522,903	-	204,689	727,592
Board of education	56,879	-	-	56,879
Administration.	697,113	-	102,790	799,903
Fiscal	304,200	24,354	1,467	330,021
Operations and maintenance.	1,274,829	-	1	1,274,830
Pupil transportation	407,320	-	735	408,055
Central.	7,693	-	-	7,693
Operation of non-instructional services:				
Food service operations	-	-	367,833	367,833
Other non-instructional services.	-	-	6,769	6,769
Extracurricular activities.	174,855	-	154,294	329,149
Facilities acquisition and construction	-	-	123,227	123,227
Debt service:				
Principal retirement	21,878	2,245,000	-	2,266,878
Interest and fiscal charges	1,091	438,336	-	439,427
Total expenditures	<u>10,131,938</u>	<u>2,707,690</u>	<u>1,521,993</u>	<u>14,361,621</u>
Excess of revenues under expenditures	<u>(62,360)</u>	<u>(1,808,725)</u>	<u>(42,109)</u>	<u>(1,913,194)</u>
Other financing sources (uses):				
Transfers in	-	-	11,039	11,039
Transfers (out).	(11,039)	-	-	(11,039)
Proceeds from sale of notes.	-	2,000,000	-	2,000,000
Total other financing sources (uses)	<u>(11,039)</u>	<u>2,000,000</u>	<u>11,039</u>	<u>2,000,000</u>
Net change in fund balances	(73,399)	191,275	(31,070)	86,806
Fund balances at beginning of year (restated)				
	290,976	542,427	91,619	925,022
Fund balances at end of year.	<u>\$ 217,577</u>	<u>\$ 733,702</u>	<u>\$ 60,549</u>	<u>\$ 1,011,828</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	86,806
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$398,713) exceeds capital outlays (\$110,600) in the current period.		(288,113)
Other financing sources in the governmental funds, such as proceeds of notes, increase liabilities on the statement of net assets.		(2,000,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(50,939)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		2,266,878
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and notes and additional accumulated accreted interest on the capital appreciation bonds.		(6,376)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(121,967)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(19,604)
Change in net assets of governmental activities	\$	(133,315)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,599,515	\$ 3,105,000	\$ 3,269,631	\$ 164,631
Tuition.	597,600	515,500	552,013	36,513
Earnings on investments.	23,185	20,000	20,166	166
Other local revenues	376,181	324,500	350,499	25,999
Intergovernmental - State	5,143,326	6,023,900	5,782,994	(240,906)
Total revenue	<u>9,739,807</u>	<u>9,988,900</u>	<u>9,975,303</u>	<u>(13,597)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,355,322	4,355,322	4,178,857	176,465
Special.	942,897	942,897	931,985	10,912
Vocational.	372,819	372,819	379,411	(6,592)
Other.	628,000	628,000	676,230	(48,230)
Support services:				
Pupil.	653,553	653,553	513,859	139,694
Instructional staff	516,501	516,501	523,410	(6,909)
Board of education	114,256	114,256	109,319	4,937
Administration.	726,940	726,940	712,105	14,835
Fiscal	326,962	326,962	295,890	31,072
Operations and maintenance.	1,331,127	1,331,127	1,266,121	65,006
Pupil transportation	459,336	459,336	407,797	51,539
Central.	34,500	34,500	7,693	26,807
Extracurricular activities.	200,620	200,620	176,632	23,988
Total expenditures	<u>10,662,833</u>	<u>10,662,833</u>	<u>10,179,309</u>	<u>483,524</u>
Excess of revenues over (under) expenditures.	<u>(923,026)</u>	<u>(673,933)</u>	<u>(204,006)</u>	<u>469,927</u>
Other financing sources (uses):				
Refund of prior year expenditure.	10,000	10,000	43,996	33,996
Transfers (out)	(20,000)	(20,000)	(10,909)	9,091
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>33,087</u>	<u>43,087</u>
Net change in fund balance	(933,026)	(683,933)	(170,919)	513,014
Fund balance at beginning of year.	599,559	599,559	599,559	-
Prior year encumbrances appropriated	88,822	88,822	88,822	-
Fund balance at end of year	<u>\$ (244,645)</u>	<u>\$ 4,448</u>	<u>\$ 517,462</u>	<u>\$ 513,014</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Cash with fiscal agent	\$ 313,313
Total assets	<u>313,313</u>
Liabilities:	
Current:	
Claims payable	310,280
Total liabilities	<u>310,280</u>
Net assets:	
Unrestricted.	<u>3,033</u>
Total net assets	<u><u>\$ 3,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services	\$ 1,315,025
Total operating revenues.	<u>1,315,025</u>
Operating expenses:	
Claims	<u>1,336,941</u>
Total operating expenses.	<u>1,336,941</u>
Operating loss	<u>(21,916)</u>
Nonoperating revenues:	
Interest revenue	<u>2,312</u>
Total nonoperating revenues.	<u>2,312</u>
Change in net assets	(19,604)
Net assets at beginning of year.	<u>22,637</u>
Net assets at end of year	<u><u>\$ 3,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 1,315,025
Cash payments for claims	<u>(1,259,335)</u>
Net cash provided by operating activities	<u>55,690</u>
Cash flows from investing activities:	
Interest received	<u>2,312</u>
Net cash provided by investing activities	<u>2,312</u>
Net increase in cash and cash equivalents	58,002
Cash and cash equivalents at beginning of year . . .	<u>255,311</u>
Cash and cash equivalents at end of year	<u><u>\$ 313,313</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (21,916)
Changes in assets and liabilities:	
Increase in claims payable	<u>77,606</u>
Net cash provided by operating activities	<u><u>\$ 55,690</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 27,288
Total assets	<u>\$ 27,288</u>
Liabilities:	
Due to students	\$ 27,288
Total liabilities	<u>\$ 27,288</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mount Gilead Exempted Village School District (the "District") is located in Morrow County, including all of the Village of Mount Gilead, Ohio, and portions of surrounding townships. The District serves an area of approximately 68 square miles.

The District was established in 1873 through the consolidation of existing land areas and school districts, and in 1960 the Edison School District also became part of the Mount Gilead Exempted Village School District. The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District ranks as the 399th largest by enrollment among the 613 public school districts in the state, and the 2nd largest in Morrow County. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 68 non-certified and 116 certified employees to provide services to approximately 1,395 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

DISCRETELY PRESENTED COMPONENT UNITS

The GOAL Digital Academy Community School (GDA)

The GDA is a legally separate, conversion community school, served by a Board of Directors. The GDA provides students within the District and throughout Ohio with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Treasurer, Special Education Director, Technology Director, and two additional Board members appointed by the District. The District is the sponsoring District of the GDA under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the GDA and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the GDA, the GDA's purpose of servicing the students with the District, and the relationship between the Board of the Education of the District and the Board of Directors of the GDA, the GDA is reflected as a component unit of the District. It is reported separately to emphasize that it is legally separate from the District. Separately issued financial statements can be obtained from the District's Treasurer. The GDA paid the District \$273,419 for contract services provided by the District during fiscal year 2004.

The Tomorrow Center Community School (Center)

The Center is a legally separate, conversion community school, serviced by a Board of Directors. The Center focuses on serving students at risk of or already in therapeutic residential placement, and provides an alternative to the traditional educational setting. The Center was organized under Ohio Law Section 3314, and the District is the sponsor. The Center was founded utilizing existing programs within the existing structure of the District. The employees of the Center remain part of the collective bargaining unit of the District. Based on the significant services provided by the District to the Center and the Center's purpose of serving the students within the District, the Center is reflected as a component unit of the District. The Center is reported separately to emphasize that it is legally separate from the District. Separately issued financial statements can be obtained from the District's Treasurer. The Center paid the District \$510,985 for contract services provided by the District during fiscal year 2004.

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

Tri Rivers Joint Vocational School

The Tri Rivers Joint Vocational School (the "JVS") is a distinct political subdivision of the State of Ohio. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

RELATED ORGANIZATION

Mount Gilead Public Library

The Mount Gilead Public Library (the "Library") is a related organization to the District. The School Board members are responsible for appointing the trustees of the Public Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The Library may issue debt and determines its own budget. Library general obligation debt currently serviced by the District is described in Note 10.

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool. See Note 11 for further information on the Plan.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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

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

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.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for internal service funds include the claims expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Basis of Accounting

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

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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

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

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

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

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

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

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

E. Budgets

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$20,296, which includes \$9,846 assigned from other funds (not including interest earned on cash with fiscal agent).

The District participates in the OME-RESA Insurance Consortium for self-insurance. These monies are held separate from the District's central bank account and are reflected on the financial statements as "cash with fiscal agent".

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 20 years
Buildings and improvements	20 - 70 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least five years of service; or twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

L. Fund Balance Reserves

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

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

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

O. Prepayments

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

P. Parochial Schools

Mount Gilead Christian School operates within the District's boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and fiduciary responsibility of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

Q. Estimates

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

R. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve for school bus purchases. A schedule of statutory reserves is presented in Note 16.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

S. 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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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 Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting and the elimination of the internal service fund.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 247,876	\$ 542,427	\$ 59,573	\$ 849,876
Fund reclassifications	-	-	32,046	32,046
Implementation of GASB Interpretation No. 6	<u>43,100</u>	<u>-</u>	<u>-</u>	<u>43,100</u>
Restated fund balance, June 30, 2003	<u>\$ 290,976</u>	<u>\$ 542,427</u>	<u>\$ 91,619</u>	<u>\$ 925,022</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 925,022
GASB 34 adjustments:	
Long-term (deferred) assets	767,761
Capital assets	13,905,393
Accrued interest payable	(31,861)
Pension obligation	(86,299)
Long-term liabilities	(10,473,109)
Internal service fund	<u>22,637</u>
Governmental activities net assets, June 30, 2003	<u>\$ 5,029,544</u>

B. Deficit Fund Balances

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

<u>Nonmajor Funds</u>	<u>Deficit</u>
Auxiliary Services	\$ 495
DPIA	4,146
Vocational Education Enhancements	1,313
Alternative Recovery School	5,370
Title VI-B	20,193
Title I	34,326
Title VI	1,382

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The Vocational Education Enhancements, Title VI-B, and Title VI special revenue funds did not comply with State law which does not allow for a negative cash balance at year-end (See Note 5.B.). All other funds complied.

C. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had a negative cash balance in the certain funds. For GAAP purposes, these negative cash balances have been reported as a fund liabilities of the respective funds. See Note 5.B. for further detail.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

A. Primary Government

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

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

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

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

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$1,325 in undeposited cash on hand, which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents" but is not part of the deposits reported below.

Cash with Fiscal Agent: At fiscal year-end, \$313,313 was on deposit with the District's fiscal agent for insurance claims, and is not included in the total amount of deposits reported below. The money is

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

held by the fiscal agent in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3

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 year-end, the carrying amount of the District's deposits was \$1,227,677 and the bank balance was \$1,690,540. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,490,540 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 1,737	\$ 1,737
Total investments	\$ 1,737	\$ 1,737

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,544,052	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(1,737)	1,737
Cash with fiscal agent	(313,313)	-
Cash on hand	<u>(1,325)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 1,227,677</u>	<u>\$ 1,737</u>

B. Component Units

During fiscal year 2004, cash of the component units was held in the District's cash and investment pool. At June 30, 2004, the carrying amount of the component units' demand deposits was \$278,216. The carrying amount of the demand deposits equaled the bank balance at that date. The entire balance was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the community schools to a successful claim by the FDIC. The component units had no investments at June 30, 2004.

NOTE 5 - INTERFUND TRANSACTIONS

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 11,039

- B.** At June 30, 2004, certain funds had a negative cash balances. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 80,618	\$ -
<u>Special Revenue Funds</u>		
Vocational Education Enhancements	-	16,767
Title VI-B	-	56,392
Title VI	<u>-</u>	<u>7,459</u>
Total	<u>\$ 80,618</u>	<u>\$ 80,618</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 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, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 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 \$374,142 in the general fund, \$7,993 in the Permanent Improvement capital projects fund, and \$120,743 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$404,797 in the general fund, \$9,291 in the Permanent Improvement capital projects fund and \$153,535 in the debt service fund.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 106,099,730	87.45	\$ 109,293,640	87.97
Public utility personal	7,562,000	6.23	7,666,480	6.17
Tangible personal property	<u>7,660,540</u>	<u>6.32</u>	<u>7,275,380</u>	<u>5.86</u>
Total	<u>\$ 121,322,270</u>	<u>100.00</u>	<u>\$ 124,235,500</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$	38.40	\$	42.80
Permanet Improvement		0.50		0.50
Debt Service		4.70		5.50

NOTE 7 - SCHOOL DISTRICT INCOME TAX

On May 4, 1999, voters of the District passed a 3/4% income tax, effective for five years. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal 2004, credited to the general fund, was \$791,769.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 4,521,622
Intergovernmental	<u>183,114</u>
Total	<u>\$ 4,704,736</u>

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy. See Note 2.H. for detail:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2003</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 26,121	\$ -	\$ 26,121
Total capital assets, not being depreciated	<u>26,121</u>	<u>-</u>	<u>26,121</u>
Capital assets, being depreciated:			
Land improvements	690,318	(341,104)	349,214
Buildings and improvements	14,930,900	(491,599)	14,439,301
Furniture and equipment	1,809,878	(388,600)	1,421,278
Vehicles	<u>770,380</u>	<u>(153,657)</u>	<u>616,723</u>
Total capital assets, being depreciated	<u>18,201,476</u>	<u>(1,374,960)</u>	<u>16,826,516</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(2,947,244)</u>	<u>(2,947,244)</u>
Governmental activities capital assets, net	<u>\$ 18,227,597</u>	<u>\$ (4,322,204)</u>	<u>\$ 13,905,393</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 26,121	\$ -	\$ -	\$ 26,121
Total capital assets, not being depreciated	<u>26,121</u>	<u>-</u>	<u>-</u>	<u>26,121</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	349,214	-	-	349,214
Buildings and improvements	14,439,301	-	-	14,439,301
Furniture and equipment	1,421,278	-	-	1,421,278
Vehicles	<u>616,723</u>	<u>110,600</u>	<u>-</u>	<u>727,323</u>
Total capital assets, being depreciated	<u>16,826,516</u>	<u>110,600</u>	<u>-</u>	<u>16,937,116</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(194,473)	(12,379)	-	(206,852)
Buildings and improvements	(1,940,064)	(209,244)	-	(2,149,308)
Furniture and equipment	(408,419)	(112,755)	-	(521,174)
Vehicles	<u>(404,288)</u>	<u>(64,335)</u>	<u>-</u>	<u>(468,623)</u>
Total accumulated depreciation	<u>(2,947,244)</u>	<u>(398,713)</u>	<u>-</u>	<u>(3,345,957)</u>
Governmental activities capital assets, net	<u>\$ 13,905,393</u>	<u>\$ (288,113)</u>	<u>\$ -</u>	<u>\$ 13,617,280</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 259,298
Special	2,296
Vocational	9,113

Support Services:

Pupil	1,636
Instructional staff	6,204
Administration	8,717
Operations and maintenance	11,348
Pupil transportation	67,211
Extracurricular activities	20,926
Food service operations	<u>11,964</u>

Total depreciation expense \$ 398,713

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** The library bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these bonds are accounted as long-term liabilities. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a .80 mill bonded debt (library) tax levy.
- B.** On September 26, 2000, the District issued \$6,999,986 in general obligation bonds (Series 2000, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted as long-term liability. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 4.70 (average) mill bonded debt tax levy.

This issue is comprised of current interest term bonds, par value \$1,900,000, current interest serial bonds, par value \$5,090,000, and capital appreciation bonds, par value \$680,000. The capital appreciation bonds mature December 1, 2014 and 2015 (effective interest 33.404% and 33.408%, respectively), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported at June 30, 2004 was \$9,986. Total accreted interest of \$18,860 has been included at June 30, 2004.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

- C.** On September 22, 2003, the District re-issued a \$2,000,000 bond anticipation note, this note was issued in anticipation of bond proceeds from a \$9,000,000 issue approved by the voters of the District in the November, 1999 general election. The note matures on September 21, 2004, and bears an annual interest rate of 1.75%. Proceeds from this note issuance were used to repay the prior bond anticipation note. The note is a general obligation of the District, for which the District's full faith and credit are pledged for repayment.
- D.** The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$60,620 from \$482,253 to \$542,873 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$70,541 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$9,921 from \$10,496,295 to \$10,486,374. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

	Restated Balance Outstanding July 1, 2003	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding June 30, 2004	Amounts Due in One Year
Governmental Activities:					
General obligation bonds:					
Series 1998, library various, 12/01/08 maturity	\$ 1,245,000	\$ -	\$ (55,000)	\$ 1,190,000	\$ 60,000
Series 2000, improvement 4.82%, 12/01/24 maturity	6,655,000	-	(190,000)	6,465,000	220,000
Series 2000, improvement capital appreciation bonds 33.404% to 33.408% (average effective) 12/01/14 & 12/01/15 maturity	9,986	-	-	9,986	-
Series 2000, improvement capital appreciation bonds accrued interest	<u>11,637</u>	<u>7,223</u>	<u>-</u>	<u>18,860</u>	<u>-</u>
Total G.O. bonds	<u>7,921,623</u>	<u>7,223</u>	<u>(245,000)</u>	<u>7,683,846</u>	<u>280,000</u>
Notes payable:					
Bond anticipation note	<u>2,000,000</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total notes payable	<u>2,000,000</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>2,000,000</u>
Other obligations:					
Capital lease obligation	21,878	-	(21,878)	-	-
Compensated absences	<u>542,873</u>	<u>173,850</u>	<u>(65,570)</u>	<u>651,153</u>	<u>46,394</u>
Total other obligations	<u>564,751</u>	<u>173,850</u>	<u>(87,448)</u>	<u>651,153</u>	<u>46,394</u>
Total long-term obligations, governmental activities	<u>\$ 10,486,374</u>	<u>\$ 2,181,073</u>	<u>\$ (2,332,448)</u>	<u>\$ 10,334,999</u>	<u>\$ 2,326,394</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2005	\$ 275,000	\$ 382,084	\$ 657,084
2006	285,000	369,671	654,671
2007	295,000	356,657	651,657
2008	310,000	342,900	652,900
2009	320,000	328,398	648,398
2010 - 2014	1,870,000	1,381,605	3,251,605
2015 - 2019	1,589,986	1,667,763	3,257,749
2020 - 2024	2,210,000	445,228	2,655,228
2025	<u>510,000</u>	<u>13,706</u>	<u>523,706</u>
Total	<u>\$ 7,664,986</u>	<u>\$ 5,288,012</u>	<u>\$ 12,952,998</u>

F. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$2,096,432 and an unvoted debt margin of \$124,236.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004 the District contracted with Indiana Insurance for general liability insurance and property insurance.

Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate. In addition, a \$2,000,000 per occurrence and aggregate policy was also underwritten by Indiana Insurance.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverages insure up to a blanket limit of \$28,085,616 with a \$1,000 deductible, commercial crime covers up to \$10,000.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Medical/Surgical, Dental and Vision Insurance

Medical/surgical, dental and vision insurance is offered to employees through a self-insurance internal service fund. The District has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$50,000 per covered person. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Self-Funded Plans, Inc. of Cleveland.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The District's independent third-party administrator has actuarially determined that \$310,280 is a good and sufficient provision for incurred but not reported claims as of June 30, 2004 and claims incurred and reported, but not paid as of June 30, 2004. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$310,280 reported in the internal service fund at June 30, 2004, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 232,674	\$ 1,336,941	\$ (1,259,335)	\$ 310,280
2003	148,275	1,402,199	(1,317,800)	232,674

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$126,526, \$104,882, and \$73,269, respectively; 48.29% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$65,424, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$689,033, \$643,618, and \$428,899, respectively; 84.51% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$106,762 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$53,003 during fiscal 2004.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$95,299 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

	<u>General Fund</u>
Budget basis	\$ (170,919)
Net adjustment for revenue accruals	94,275
Net adjustment for expenditure accruals	7,217
Net adjustment for other sources/uses	(44,126)
Adjustment for encumbrances	<u>40,154</u>
GAAP basis	<u>\$ (73,399)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (9,304)	\$ (9,661,729)
Current year set-aside requirement	193,557	193,557
Qualifying disbursements	<u>(219,381)</u>	<u>(314,543)</u>
 Total	 <u>\$ (35,128)</u>	 <u>\$ (9,782,715)</u>
 Cash balance carried forward to FY 2005	 <u>\$ (35,128)</u>	 <u>\$ (9,782,715)</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside requirement for future years.

In addition to the above, the District has received funds from the State of Ohio restricted for school bus purchases. The District has \$3,962 of these funds on-hand at June 30, 2004.

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

Amounts restricted for school bus purchase	\$ <u>3,962</u>
Total restricted assets	\$ <u>3,962</u>

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS

On September 21, 2004, the District rolled over \$2,000,000 in bond anticipation notes. The interest rate on these notes is 2.63%.

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MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT

MORROW COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Lunch Program	LL-P4 2004	10.555	\$ 126,149	\$ -	\$ 126,149	\$ -
Food Distribution Program	N/A	10.550	-	48,550	-	48,550
Total U.S. Department of Agriculture - Nutrition Cluster			126,149	48,550	126,149	48,550
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2003	84.010	4,390	-	-	-
	C1-S1 2004		235,168	-	235,168	-
Total Title I Grants to Local Educational Agencies			239,558	-	235,168	-
Special Education Grants to States (IDEA Part B)	6B-SF 2003	84.027	794	-	-	-
	6B-SF 2004		126,845	-	183,236	-
Total Special Education Grants to State			127,639	-	183,236	-
Innovative Education Program Strategies	C2-S1 2003	84.298	639	-	561	-
	C2-S1 2004		4,495	-	11,954	-
Total Innovative Education Program Strategies			5,134	-	12,515	-
Safe and Drug Free Schools and Community - State Grant	DR-S1 2003	84.186	4,401	-	-	-
	DR-S1 2004		5,922	-	3,886	-
Total Safe and Drug Free Schools and Community - State Grant			10,323	-	3,886	-
Title II-A Improving Teacher Quality	TR-S1 2003	84.367	19	-	-	-
	TR-S1 2004		81,212	-	73,666	-
Total Title II-A Improving Teacher Quality			81,231	-	73,666	-
Title II-D Education Technology State Grant	TJ-S1 2004	84.318	6,365	-	6,365	-
Assistive Technology	N/A	84.352A	-	-	2,560	-
Total U.S. Department of Education			470,250	-	517,396	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities:</i>						
Medicaid, Title XIX	6400769	93.778	12,957	-	12,957	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed Through Ohio Department of Education:</i>						
Learn & Serve Grant	SV-S2 2003	94.004	-	-	935	-
	SV-S2 2004		15,000	-	14,360	-
Total Corporation for National and Community Service			15,000	-	15,295	-
Total Federal Awards			\$ 624,356	\$ 48,550	\$ 671,797	\$ 48,550

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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

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

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Mount Gilead Exempted Village School District
Morrow County
145 ½ North Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005, wherein we noted the District adopted Governmental Accounting Board Statement No. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted other immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 22, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated March 22, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

March 22, 2005



Auditor of State Betty Montgomery

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

Mount Gilead Exempted Village School District
Morrow County
145 ½ N. Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 22, 2005

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027—IDEA Part B
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Reportable condition: The District did not have an accurate and complete listing of fixed assets.	Yes	N/A
2003-002	Reportable condition: Separate financial records for the GOAL Digital Academy Community School and the Tomorrow Center Community School were not established as stated.	Yes	N/A



**Auditor of State
Betty Montgomery**

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MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT

MORROW 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
MAY 5, 2005**