

**Mentor Exempted Village School District
Lake County, Ohio**

Financial Statements

June 30, 2003



**Auditor of State
Betty Montgomery**

Board of Education
Mentor Exempted Village School District

We have reviewed the Independent Auditor's Report of the Mentor Exempted Village School District, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

June 15, 2004

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Mentor Exempted Village School District

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Independent Auditors' Report

Board of Education
Mentor Exempted Village School District
Mentor, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mentor Exempted Village School District, Lake County, Ohio, (the "District") as of and for the year ended June 30, 2003, 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 an opinion 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 business-type activities, each major fund, and the aggregate remaining fund information of the Mentor Exempted Village School District, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Interpretation No. 6 and changed its accounting for capital assets.

Mentor Exempted Village School District

As described in Note 23 to the financial statements, the District has been declared to be in fiscal emergency under the criteria established by Ohio Revised Code Chapter 118.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2004 on our consideration of the Mentor Exempted Village School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management'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.

Cini & Parichi, Inc.

Cleveland, Ohio
May 21, 2004

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2003

Our discussion and analysis of the Mentor Exempted Village School District's (the "District") financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets decreased \$7,967,493. Net assets of governmental activities decreased \$7,629,915, which represents a 426.05% decrease from 2002. Net assets of business-type activities decreased \$337,578 or 31.32% from 2002.
- General revenues accounted for \$80,340,032 in revenue or 89.06% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,872,396 or 10.94% of total revenues of \$90,212,428.
- The School District had \$94,845,969 in expenses related to governmental activities; only \$6,880,192 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 \$80,335,862 were not adequate to provide for these programs resulting in a decrease to net assets (deficit) from (\$1,790,868) to (\$9,420,783).
- The School District had \$3,333,952 in expenses related to business-type activities; a total of \$2,992,204 was offset by program specific charges for services, grants and contributions. General revenues include interest earnings of \$4,170. Total revenues were not adequate to provide for these programs by (\$337,578) resulting in a decrease to net assets from \$1,077,722 to \$740,144.
- The School District's major governmental fund was the General Fund. The General Fund had \$78,527,004 in revenues and other financing sources and \$86,100,976 in expenditures and other financing uses. The General Fund's fund deficit increased \$7,573,972 from (\$4,258,817) to (\$11,832,789).

Using these Basic Financial Statements

This basic financial statement report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole, and 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 School 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of the School District, the General Fund is by far the most significant fund and is the only governmental fund reported as a major fund.

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

Reporting the School District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at his or her conclusion regarding the overall health of the School District.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two distinct kinds of activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The School District's food service, uniform school supplies, adult education and recreation operations are reported as business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Our analysis of the School District's major governmental funds begins on page 8. The fund financial statements begin on page 14 and provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State statute, while many other funds are established by the School District to help manage money for particular purposes and compliance with various grant provisions. The School District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School 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 other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the School District's 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.

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

Proprietary Funds

Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore the statements will essentially match the business-type activities portion of the entity-wide statements.

Fiduciary Funds

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 25. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

The Statement of Net Assets provides the perspective of the School 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 School District's net assets for 2003.

	Net Assets	
	Governmental Activities 2003	Business-Type Activities 2003
Current Assets	\$ 57,908,075	\$ 687,538
Capital Assets	16,494,891	443,047
Total Assets	<u>74,402,966</u>	<u>1,130,585</u>
Current Liabilities	65,714,827	234,187
Long Term Liabilities	18,108,922	156,254
Total Liabilities	<u>83,823,749</u>	<u>390,441</u>
Net Assets:		
Invested in Capital		
Assets, net of debt	2,482,562	286,793
Restricted	1,948,950	-
Unrestricted	(13,852,295)	453,351
Total Net Assets	<u>\$ (9,420,783)</u>	<u>\$ 740,144</u>

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the School District has prepared financial statements following GASB 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

Statement of Activities

	Governmental Activities 2003	Business-Type Activities 2003
Revenues		
Program Revenues		
Charges for Services	\$ 1,865,210	\$ 2,473,073
Operating Grants	4,853,351	519,131
Capital Grants	161,631	-
Total Program Revenues	<u>6,880,192</u>	<u>2,992,204</u>
General Revenues		
Property Taxes	58,061,187	-
Grants and Entitlements	21,901,553	-
Investment Earnings	92,578	4,170
Gain on Sale of Capital Assets	13,142	-
Miscellaneous	267,402	-
Total General Revenues	<u>80,335,862</u>	<u>4,170</u>
Total Revenues	<u>87,216,054</u>	<u>2,996,374</u>
Expenses		
Program Expenses		
Instruction		
Regular	40,956,464	
Special	8,260,968	
Vocational	2,544,369	
Adult/Continuing	71,533	
Other	2,298,419	
Support Services		
Pupil	5,683,969	
Instructional Staff	4,816,165	
Board of Education	629,729	
Administration	6,311,385	
Fiscal	1,694,931	
Business	23,205	
Operation & Maintenance	8,766,874	
Pupil Transportation	5,635,017	
Central	1,960,997	
Operations of Non-Instructional Services	1,011,416	
Extracurricular Activities	2,858,612	
Interest and Fiscal Charges	1,321,916	
Food Service	-	2,712,308
Uniform School Supplies	-	297,382
Adult and Comm Education	-	136,412
Recreation	-	187,850
Total Expenses	<u>94,845,969</u>	<u>3,333,952</u>
Change in Net Assets	<u>\$ (7,629,915)</u>	<u>\$ (337,578)</u>

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

Governmental Activities

Net assets of the School District's governmental activities decreased by \$7,629,915. Program revenues of \$6,880,192 and general revenues of \$80,335,862 were not sufficient to offset total governmental expenses of \$94,845,969. Program revenues supported 8.04% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 91.68% of total governmental revenue. Property taxes supported 61.22% of total expenses while grants and entitlements supported 23.09% of total expenses. Between these two revenue items, 84.31% of total governmental expenditures were funded.

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 for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities	
	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
Program Expenses		
Instruction:		
Regular	\$ 40,956,464	\$ 39,760,502
Special	8,260,968	6,156,752
Vocational	2,544,369	1,861,741
Adult/ Continuing	71,533	71,533
Other	2,298,419	2,298,419
Support Services:		
Pupil	5,683,969	5,683,969
Instructional Staff	4,816,165	4,760,165
Board of Education	629,729	629,729
Administration	6,311,385	5,469,693
Fiscal	1,694,931	1,694,931
Business	23,205	23,205
Operation & Maintenance	8,766,874	8,766,874
Pupil Transportation	5,635,017	5,396,546
Central Services	1,960,997	1,868,976
Operation of Non-Instructional Services	1,011,416	921,846
Extracurricular Activities	2,858,612	1,278,980
Interest and Fiscal Charges	1,321,916	1,321,916
Total Expenses	<u>\$ 94,845,969</u>	<u>\$ 87,965,777</u>

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 92.64% of 2003 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 92.88% in 2003. The School District's taxpayers, as a whole, are by far the primary support for District's students.

Business-Type Activities

Business-type activities include food service operation, uniform supplies, adult education and recreation. These programs had revenues of \$2,996,374 and expenses of \$3,333,952 for fiscal year 2003. The food service operations had expenses of \$2,712,308 and revenues of \$2,372,679. This resulted in a decrease to net assets for the fiscal year of \$339,629. The other enterprise funds had expenses of \$621,644 and revenues of \$623,695. This resulted in an increase to net assets for the fiscal year of \$2,051. Management assesses the performance of each of these funds to ensure that they are run efficiently.

The School District's Funds

The School District's governmental funds (as presented on the balance sheet on page 14) reported a combined fund deficit of \$10,565,689, which is above last year's deficit of \$2,922,943. The fund balance (deficit) at June 30, 2002 has been restated for the reclassifications of funds and the implementation of new accounting standards (See Note 3 to the basic financial statements). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Deficit <u>June 30, 2003</u>	Fund Deficit <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ (11,832,789)	\$ (4,258,817)	\$ (7,573,972)
Other Governmental	<u>1,267,100</u>	<u>1,335,874</u>	<u>(68,774)</u>
Total	\$ <u>(10,565,689)</u>	\$ <u>(2,922,943)</u>	\$ <u>(7,642,746)</u>

General Fund

The School District's General Fund balance decreased by \$7,573,972, due to a decrease in tax revenue, lower interest earnings and increased expenditures during 2003. The table that follows assists in illustrating the financial activities and fund balance of the General Fund.

<u>Revenues</u>	2003 <u>Amount</u>	2002 <u>Amount</u>	Percentage <u>Change</u>
Taxes	\$ 54,296,175	\$ 51,471,428	\$ 5.49%
Interest Earnings	89,592	245,068	(63.44)
Intergovernmental	22,628,508	22,985,526	(1.55)
Other Revenue	<u>492,532</u>	<u>456,807</u>	7.82
Total	\$ <u>77,506,807</u>	\$ <u>75,158,829</u>	

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

The property tax revenue is up \$2,824,747 due to second half real estate property tax advances available (fiscal 2004) being recorded in fiscal 2003.

Intergovernmental revenue decreased \$357,018 or 1.55% from the prior year. This decrease is attributed to an decrease in the number of grants the School District received in 2003. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2002.

The table that follows assists in illustrating the expenditures of the General Fund.

<u>Expenditures by Function</u>	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 50,698,227	\$ 46,721,187	8.51%
Support Services	33,617,346	29,453,161	14.14
Community Services	98,695	87,280	13.08
Extracurricular Activities	1,220,804	1,124,107	8.60
Refund of Prior Year Receipts	273	236	15.68
Total	<u>\$ 85,635,345</u>	<u>\$ 77,385,971</u>	

The most significant increase was in the area of instruction and support services. This increase is due primarily to labor wage increases. The support services increase was primarily due to the closure of the East Shore Handicap Fund and the resulting transfer of instructional personnel to the General Fund in fiscal 2003. The labor increases also impacted this area.

General Fund Budget Information

The School District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The School District amended its revenue estimates to reflect a loan and tax advances greater than originally anticipated. In total, the final budget for expenditures increased by \$481,635 over the original budget due to an increase in several areas. The most significant increases in the budgeted expenditure line items occurred under support services costs. Original plans called for increase enrollment, which would require additional teachers. The enrollment did not increase at the level projected. Support services for pupil services were increased due to the closure of the East Shore Handicap Fund.

The School District did not use any centralized, long-range budgeting system. The required State five-year forecasts could not be tracked back to solid forecasting assumptions or realistic wage projections. The School District generally used a top-down budgeting system with minimal involvement from the administrative staff. The budgeting system, as it existed, was more of an exception-based budgeting system, based on expenditures from the previous year being modified on an exception basis for the coming year. Budgetary controls were minimal and/or non-existent.

Mentor Exempted Village School District

Management's Discussion & Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2003

Capital Assets

The School District had \$16,937,938 invested in capital assets net of depreciation, with \$16,494,891 attributed to government activities. Acquisition for government activities totaled \$2,030,570 and depreciation was \$2,326,905. The majority of the additions were represented by acquisition of vehicles plus furniture and equipment, primarily computer equipment, and window replacement and roofing projects. Detailed information regarding capital asset activities include in the notes to the financial statement (Note 10).

Debt

At June 30, 2003, the School District had \$13,512,329 in an outstanding long-term debt and \$5,500,000 in short-term debt. The School District paid \$466,933 in principal on bonds outstanding, \$683,506 on capital leases outstanding and \$750,000 on notes payable during the fiscal year. Detailed information regarding long-term debt activity, capital lease obligations and notes payable activity is included in the notes to the basic financial statements (Notes 15, 16 and 17, respectively).

Current Financial Related Activities

The first challenge facing the School District is based on the need for additional income from local sources. The School District placed a 7.9 mill, \$15,000,000 levy on the March 2004 ballot. The attempt was unsuccessful. The School District, upon revising previously submitted five-year forecasts, has found itself in a \$20,138,000 deficit as of June 30, 2004. The State Auditor of Ohio has certified the deficit. In accordance with state law, the Mentor School District has been declared to be in fiscal emergency. The School District is now operating under the laws dealing with fiscal emergency, which require a commission to review all operations of the School District on an on-going basis. The School District will receive interest free advances against future State subsidy from the State of Ohio to cover the before mentioned deficit. The School District is currently considering the resubmission of the 7.9 mill levy for a special August 2004 election. The management of the Mentor Schools has put forward a recovery plan, which encompasses three phases. Phase I and II were cuts that were made in fiscal 2004. Phase III cuts will be implemented and the full affect will be felt in fiscal 2005 along with the closure of Center Street Village Elementary School in September 2004. If the August levy is successful, some Phase III reductions will be reversed.

The School District will face the State of Ohio Commission Oversight Board for at least one year. The School District is undergoing a performance audit by the Ohio Auditor's Office. The performance audit is meant to recommend possible inefficiencies in the operation of the School District.

The School District is further facing potential decreases in personal property taxes as a result of state mandated decreases in assessed valuation of personal property.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Daniel L. Wilson, Chief Financial Officer, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060 or by calling (440) 974-5230.

Mentor Exempted Village School District

Statement of Net Assets

June 30, 2003

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets:			
Equity in Pooled Cash and Investments	\$ -	\$ 220,165	\$ 220,165
Prepaid Items	178,910	-	178,910
Accounts Receivable	35,582	-	35,582
Intergovernmental Receivable	1,428,028	-	1,428,028
Internal Balances	(378,981)	378,991	-
Materials and Supplies Inventory	288,192	88,392	376,584
Taxes Receivable	54,407,394	-	54,407,394
Restricted Assets:			
Equity in Pooled Cash and Investments	1,948,950	-	1,948,950
Nondepreciable Capital Assets	725,721	-	725,721
Depreciable Capital Assets, Net	15,769,170	443,047	16,212,217
Total Assets	74,402,966	1,130,585	75,533,551
Liabilities:			
Accounts Payable	1,586,665	70,647	1,657,312
Accrued Wages and Benefits	7,611,587	145,282	7,756,869
Intergovernmental Payable	1,451,651	-	1,451,651
Accrued Pension	2,151,150	17,440	2,168,590
Deferred Revenue	46,450,839	-	46,450,839
Claims Payable	901,868	-	901,868
Accrued Interest Payable	61,067	818	61,885
Notes Payable	5,500,000	-	5,500,000
Long-Term Liabilities:			
Due Within One Year	1,129,115	19,790	1,148,905
Due in More Than One Year	16,979,807	136,464	17,116,271
Total Liabilities	83,823,749	390,441	84,214,190
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,482,562	286,793	2,769,355
Restricted for:			
Healthcare Consortium	1,948,950	-	1,948,950
Unreserved (Deficit)	(13,852,295)	453,351	(13,398,944)
Total Net Assets	\$ (9,420,783)	\$ 740,144	\$ (8,680,639)

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Activities

For The Fiscal Year Ended June 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction:			
Regular	\$ 40,956,464	\$ 67,905	\$ 1,128,057
Special	8,260,968	273,771	1,830,445
Vocational	2,544,369	-	682,628
Adult/Continuing	71,533	-	-
Other	2,298,419	-	-
Support Services:			
Pupil	5,683,969	-	-
Instructional Staff	4,816,165	-	56,000
Board of Education	629,729	-	-
Administration	6,311,385	841,692	-
Fiscal	1,694,931	-	-
Business	23,205	-	-
Operations and Maintenance of Plant	8,766,874	-	-
Pupil Transportation	5,635,017	76,840	-
Central	1,960,997	-	92,021
Operation and Non-Instructional Services	1,011,416	89,570	-
Extracurricular Activities	2,858,612	515,432	1,064,200
Interest and Fiscal Charges	1,321,916	-	-
Total Governmental Activities	<u>94,845,969</u>	<u>1,865,210</u>	<u>4,853,351</u>
Business-type activities:			
Food Service	2,712,308	1,849,378	519,131
Uniform Supplies	297,382	271,272	-
Adult Education	136,412	154,762	-
Recreation	187,850	197,661	-
Total Business-Type Activities	<u>3,333,952</u>	<u>2,473,073</u>	<u>519,131</u>
Totals	\$ <u>98,179,921</u>	\$ <u>4,338,283</u>	\$ <u>5,372,482</u>

General Revenues:

Property Taxes Levies for:

 General Purpose

 Debt Service

 Capital Projects

Grant and Entitlements not Restricted to

 Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Special Items:

Gain on Sale of Capital Assets

Total General Revenues and Special Items

Change in Net Assets

Net Assets Beginning of the Year, Restated

Net Assets End of Year

The Notes to the Basic Financial Statements are an Integral Part of this Statement

<u>Primary Government</u>			
<u>Capital Grants</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ -	\$ (39,760,502)	\$ -	\$ (39,760,502)
-	(6,156,752)	-	(6,156,752)
-	(1,861,741)	-	(1,861,741)
-	(71,533)	-	(71,533)
-	(2,298,419)	-	(2,298,419)
-	(5,683,969)	-	(5,683,969)
-	(4,760,165)	-	(4,760,165)
-	(629,729)	-	(629,729)
-	(5,469,693)	-	(5,469,693)
-	(1,694,931)	-	(1,694,931)
-	(23,205)	-	(23,205)
-	(8,766,874)	-	(8,766,874)
161,631	(5,396,546)	-	(5,396,546)
-	(1,868,976)	-	(1,868,976)
-	(921,846)	-	(921,846)
-	(1,278,980)	-	(1,278,980)
-	(1,321,916)	-	(1,321,916)
<u>161,631</u>	<u>(87,965,777)</u>	<u>-</u>	<u>(87,965,777)</u>
-	-	(343,799)	(343,799)
-	-	(26,110)	(26,110)
-	-	18,350	18,350
-	-	9,811	9,811
<u>-</u>	<u>-</u>	<u>(341,748)</u>	<u>(341,748)</u>
\$ <u>161,631</u>	<u>(87,965,777)</u>	<u>(341,748)</u>	<u>(88,307,525)</u>
	54,910,178	-	54,910,178
	1,934,762	-	1,934,762
	1,216,247	-	1,216,247
	21,901,553	-	21,901,553
	92,578	4,170	96,748
	<u>267,402</u>	<u>-</u>	<u>267,402</u>
	<u>80,322,720</u>	<u>4,170</u>	<u>80,326,890</u>
	13,142	-	13,142
	<u>80,335,862</u>	<u>4,170</u>	<u>80,340,032</u>
	(7,629,915)	(337,578)	(7,967,493)
	<u>(1,790,868)</u>	<u>1,077,722</u>	<u>(713,146)</u>
\$	<u>(9,420,783)</u>	\$ <u>740,144</u>	\$ <u>(8,680,639)</u>

Mentor Exempted Village School District

Balance Sheet – Governmental Funds

June 30, 2003

	<u>General</u>	<u>Non-Major</u>	<u>Total</u>
Assets:			
Taxes - Receivable	\$ 51,800,777	\$ 2,606,617	\$ 54,407,394
Accounts Receivable	13,157	5,000	18,157
Interfund Receivable	-	1,907,044	1,907,044
Due From Other Governments	135,125	1,268,206	1,403,331
Materials and Supplies Inventory	288,192	-	288,192
Prepays and Other Assets	<u>177,553</u>	<u>1,357</u>	<u>178,910</u>
Total Assets	<u>\$ 52,414,804</u>	<u>\$ 5,788,224</u>	<u>\$ 58,203,028</u>
Liabilities:			
Accounts Payable	\$ 957,054	\$ 565,511	\$ 1,522,565
Accrued Interest Payable	-	1,075	1,075
Accrued Wages and Benefits	7,497,017	88,707	7,585,724
Accrued Pension	1,399,874	18,197	1,418,071
Interfund Payable	3,127,500	9,246	3,136,746
Deferred Revenue	46,266,148	3,338,388	49,604,536
Notes Payable	<u>5,000,000</u>	<u>500,000</u>	<u>5,500,000</u>
Total Liabilities	<u>64,247,593</u>	<u>4,521,124</u>	<u>68,768,717</u>
Fund Balances:			
Reserved for Inventory	288,192	-	288,192
Reserved for Prepays	177,553	1,357	178,910
Reserved for Property Taxes	5,534,629	391,802	5,926,431
Reserved for Encumbrances	1,239,944	849,006	2,088,950
Reserved for Debt	-	873,621	873,621
Unreserved; Undesignated (Deficit) For:			
General Fund	(19,073,107)	-	(19,073,107)
Special Revenue Funds	-	(397,608)	(397,608)
Capital Projects Funds	<u>-</u>	<u>(451,078)</u>	<u>(451,078)</u>
Total Fund Equity (Deficit)	<u>(11,832,789)</u>	<u>1,267,100</u>	<u>(10,565,689)</u>
Total Liabilities and Fund Equity	<u>\$ 52,414,804</u>	<u>\$ 5,788,224</u>	<u>\$ 58,203,028</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

June 30, 2003

Total Governmental Funds Balances \$ (10,565,689)

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the Funds. 16,403,364

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

Property Taxes	\$ 2,030,124	
Intergovernmental	<u>1,123,573</u>	<u>3,153,697</u>

In the Statement of Activities, Interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (59,992)

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in Governmental Activities in the Statement of Net Assets. 482,164

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

General Obligation Debt	(13,512,329)	
Accrued Pension	(725,405)	
Compensated Absences	<u>(4,596,593)</u>	<u>(18,834,327)</u>

Net Assets of Governmental Activities \$ (9,420,783)

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For The Fiscal Year Ended June 30, 2003

	<u>General</u>	<u>Non-Major</u>	<u>Total</u>
Revenues:			
Taxes	\$ 54,296,175	\$ 3,151,009	\$ 57,447,184
Tuition and Fees	175,267	-	175,267
Sales	-	89,570	89,570
Earnings on Investments	89,592	2,917	92,509
Intergovernmental	22,628,508	4,288,027	26,916,535
Extracurricular Activities	-	329,170	329,170
Refund Of Prior Year Expenditures	159,262	2,202	161,464
Miscellaneous Revenue	<u>158,003</u>	<u>200,064</u>	<u>358,067</u>
Total Revenues	<u>77,506,807</u>	<u>8,062,959</u>	<u>85,569,766</u>
Expenditures:			
Current:			
Instruction:			
Regular Education	38,323,864	1,090,232	39,414,096
Special Education	7,516,138	758,062	8,274,200
Vocational Education	2,557,011	27,966	2,584,977
Adult/Continuing	2,795	68,738	71,533
Other Instruction	2,298,419	-	2,298,419
Support Services:			
Pupil	5,177,590	531,522	5,709,112
Instructional Staff	4,358,869	472,130	4,830,999
Board Of Education	629,729	-	629,729
Administration	4,967,550	497,032	5,464,582
Fiscal	1,660,704	20,095	1,680,799
Business	694,926	10,379	705,305
Operations and Maintenance of Plant	8,119,846	989,507	9,109,353
Pupil Transportation	6,453,258	11,457	6,464,715
Central	1,554,874	443,493	1,998,367
Community Service	98,695	223,977	322,672
Extracurricular Activities	1,220,804	1,669,226	2,890,030
Refund Of Prior Years Receipts	273	10,607	10,880
Debt Service:			
Principal	-	466,933	466,933
Interest	<u>-</u>	<u>1,305,993</u>	<u>1,305,993</u>
Total Expenditures	<u>85,635,345</u>	<u>8,597,349</u>	<u>94,232,694</u>
Excess of Revenues Over (Under) Expenditures	<u>(8,128,538)</u>	<u>(534,390)</u>	<u>(8,662,928)</u>

Continued

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)

For The Fiscal Year Ended June 30, 2003

	<u>General</u>	<u>Non-Major</u>	<u>Total</u>
Other Financing Sources (Uses):			
Operating Transfers – In	15	465,631	465,646
Operating Transfers – Out	(465,631)	(15)	(465,646)
Inception of Capital Lease	1,007,040	-	1,007,040
Proceeds from Sale of Assets	<u>13,142</u>	<u>-</u>	<u>13,142</u>
Total Other Financing Sources (Uses)	<u>554,566</u>	<u>465,616</u>	<u>1,020,182</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(7,573,972)	(68,774)	(7,642,746)
Fund Balance (Deficit), Beginning Of Year, Restated	<u>(4,258,817)</u>	<u>1,335,874</u>	<u>(2,922,943)</u>
Fund Balance (Deficit), End of Year	\$ <u>(11,832,789)</u>	\$ <u>1,267,100</u>	\$ <u>(10,565,689)</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (7,642,746)

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 2,030,570	
Depreciation	<u>(2,298,696)</u>	(268,126)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Property and Other Taxes	(509,570)	
Intergovernmental	<u>1,123,573</u>	614,003

Other Financing Sources in the Governmental Funds that increase Long-Term Liabilities in the Statement of Net Assets. These sources were attributed to inception of capital lease. (1,007,040)

Repayment of Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 1,150,439

Internal Service Funds are used by management to charge to costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service Fund is reported with Governmental Activities. (510,869)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated Absences	76,527	
Accrued Pension	(26,180)	
Accrued Interest on Bonds	<u>(15,923)</u>	
		<u>34,424</u>

Change in Net Assets of Governmental Activities \$ (7,629,915)

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP) and Actual – General Fund

For The Fiscal Year Ended June 30, 2003

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 54,960,976	\$ 51,632,323	\$ 51,632,323	\$ -
Tuition and Fees	285,110	285,110	98,427	(186,683)
Interest	401,474	401,474	100,846	(300,628)
Intergovernmental	18,175,583	26,789,608	22,493,383	(4,296,225)
Miscellaneous Revenue	<u>267,314</u>	<u>267,314</u>	<u>247,949</u>	<u>(19,365)</u>
Total Revenues	<u>74,090,457</u>	<u>79,375,829</u>	<u>74,572,928</u>	<u>(4,802,901)</u>
Expenditures:				
Instruction:				
Regular Instruction	39,642,761	39,111,412	38,317,525	793,887
Special Instruction	6,243,319	5,844,596	7,362,582	(1,517,986)
Other Instruction	3,965,473	3,998,355	4,790,097	(791,742)
Support Services:				
Pupils	4,977,428	4,725,272	5,120,951	(395,679)
Instructional Staff	3,842,535	3,832,820	4,455,061	(622,241)
Board of Education	703,184	706,184	662,378	43,806
Administration	4,569,203	4,621,268	4,958,260	(336,992)
Fiscal	1,969,892	2,001,020	1,721,208	279,812
Business	655,704	655,056	697,674	(42,618)
Operation and Maintenance of Plant	8,362,088	9,672,898	8,599,699	1,073,199
Pupil Transportation	5,427,988	5,521,954	5,569,602	(47,648)
Central	1,575,479	1,701,253	1,771,670	(70,417)
Community Services	92,183	93,503	91,851	1,652
Extracurricular Activities	<u>1,164,056</u>	<u>1,187,337</u>	<u>1,240,582</u>	<u>(53,245)</u>
Total Expenditures	<u>83,191,293</u>	<u>83,672,928</u>	<u>85,359,140</u>	<u>(1,686,212)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(9,100,836)</u>	<u>(4,297,099)</u>	<u>(10,786,212)</u>	<u>(6,489,113)</u>
Other Financing Sources (Uses):				
Advance/Transfers – In	497,729	497,729	15	(497,714)
Debt Proceeds	3,300,000	4,221,858	5,000,000	778,142
Refund of Prior Year Expenditures	200,000	200,000	201,105	1,105
Advances/Transfers – Out	(1,300,000)	(818,056)	(472,081)	345,975
Refund of Prior Year Receipts	<u>(40)</u>	<u>(356)</u>	<u>(329)</u>	<u>27</u>
Total Other Financing Sources (Uses)	<u>2,697,689</u>	<u>4,101,175</u>	<u>4,728,710</u>	<u>627,535</u>

Continued

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP) and Actual – General Fund (continued)

For The Fiscal Year Ended June 30, 2003

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,403,147)	(195,924)	(6,057,502)	(5,861,578)
Fund Balance (Deficit), Beginning of Year	(387,074)	(387,074)	(387,074)	-
Expenditures Against Prior Year's Encumbrances	<u>1,923,208</u>	<u>1,923,208</u>	<u>1,923,208</u>	<u>-</u>
Fund Balance (Deficit), End of Year	\$ <u>(4,867,013)</u>	\$ <u>1,340,210</u>	\$ <u>(4,521,368)</u>	\$ <u>(5,861,578)</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Fund Net Assets Proprietary Funds

June 30, 2003

	Food Service Fund	Non-Major Enterprise Funds	Total Enterprise Funds	Governmental Activities Internal Service Funds
Assets:				
Current Assets:				
Equity in Pooled Cash and Investments	\$ 220,165	\$ -	\$ 220,165	\$ -
Receivables:				
Accounts Receivable	-	-	-	17,425
Intergovernmental	-	-	-	24,697
Interfund	20,347	366,845	387,192	850,721
Materials and Supplies Inventories	<u>88,392</u>	<u>-</u>	<u>88,392</u>	<u>-</u>
Total Current Assets	<u>328,904</u>	<u>366,845</u>	<u>695,749</u>	<u>892,843</u>
Non-Current Assets:				
Restricted Assets:				
Equity in Pooled Cash and Investments	-	-	-	1,948,950
Depreciable Capital Assets, Net	<u>441,209</u>	<u>1,838</u>	<u>443,047</u>	<u>91,527</u>
Total Non-Current Assets	<u>441,209</u>	<u>1,838</u>	<u>443,047</u>	<u>2,040,477</u>
Total Assets	<u>770,113</u>	<u>368,683</u>	<u>1,138,796</u>	<u>2,933,320</u>
Liabilities:				
Accounts Payable	41,935	28,712	70,647	64,100
Accrued Wages and Benefits	138,616	6,666	145,282	25,863
Interfund Payable	-	8,211	8,211	-
Claims Payable	-	-	-	901,868
Pension Obligation Payable	15,462	1,978	17,440	7,674
Accrued Interest Payable	818	-	818	-
Due To Other Governments	-	-	-	1,451,651
Current Portion of Capital Leases	<u>19,790</u>	<u>-</u>	<u>19,790</u>	<u>-</u>
Total Current Liabilities	<u>216,621</u>	<u>45,567</u>	<u>262,188</u>	<u>2,451,156</u>
Long-Term Liabilities:				
Capital Leases	<u>136,464</u>	<u>-</u>	<u>136,464</u>	<u>-</u>
Total Liabilities	<u>353,085</u>	<u>45,567</u>	<u>398,652</u>	<u>2,451,156</u>
Net Assets:				
Investment in Capital Assets, Net of Related Debt	284,955	1,838	286,793	91,527
Restricted For:				
Healthcare Consortium	-	-	-	1,948,950
Unreserved; Undesignated (Deficit)	<u>132,073</u>	<u>321,278</u>	<u>453,351</u>	<u>(1,558,313)</u>
Total Net Assets	<u>\$ 417,028</u>	<u>\$ 323,116</u>	<u>\$ 740,144</u>	<u>\$ 482,164</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Fiscal Year Ended June 30, 2003

	Food Service Fund	Non-Major Enterprise Funds	Total Enterprise Funds	Governmental Activities Internal Service Funds
Operating Revenues:				
Tuition and Fees	\$ -	\$ 422,581	\$ 422,581	\$ 243,249
Extracurricular Activities	-	20	20	186,262
Sales	1,849,358	-	1,849,358	-
Charges for Services	20	200,594	200,614	7,575,921
Total Operating Revenues	<u>1,849,378</u>	<u>623,195</u>	<u>2,472,573</u>	<u>8,005,432</u>
Operating Expenses:				
Salaries and Wages	866,302	54,047	920,349	629,903
Fringe Benefits	453,583	8,135	461,718	169,267
Contractual Services	106,162	204,510	310,672	165,362
Materials and Supplies	1,225,416	307,899	1,533,315	203,744
Claims Expense	-	-	-	6,914,934
Other Expenses	-	46,389	46,389	325,595
Depreciation	60,027	624	60,651	28,209
Total Operating Expenses	<u>2,711,490</u>	<u>621,604</u>	<u>3,333,094</u>	<u>8,437,014</u>
Operating Income (Loss)	<u>(862,112)</u>	<u>1,591</u>	<u>(860,521)</u>	<u>(431,582)</u>
Non-Operating Revenues (Expenses):				
Federal Donated Commodities	132,026	-	132,026	-
Grant Revenue	387,105	-	387,105	-
Interest Income	4,170	-	4,170	69
Interest and Fiscal Charges	(818)	-	(818)	-
Other Non-Operating Revenues	-	500	500	429
Other Non-Operating Expenses	-	(40)	(40)	(79,785)
Total Non-Operating Revenue (Expenses)	<u>522,483</u>	<u>460</u>	<u>522,943</u>	<u>(79,287)</u>
Change in Net Assets	(339,629)	2,051	(337,578)	(510,869)
Total Net Assets, Beginning of Year, Restated	<u>756,657</u>	<u>321,065</u>	<u>1,077,722</u>	<u>993,033</u>
Total Net Assets, End of Year	\$ <u>417,028</u>	\$ <u>323,116</u>	\$ <u>740,144</u>	\$ <u>482,164</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Cash Flows Proprietary Funds

For The Fiscal Year Ended June 30, 2003

	Food Service	Non-major Enterprise	Total Enterprise	Governmental Activities Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 1,895,613	\$ 200,594	\$ 2,096,207	\$ 7,578,140
Cash Received from Classroom Materials and Fees	-	271,280	271,280	186,262
Cash Received from Tuition Payments	-	151,321	151,321	2,439,169
Cash Payments to Contractual Services	(348,874)	(204,510)	(553,384)	(97,638)
Cash Payments for Wages	(873,848)	(89,318)	(963,166)	(626,787)
Cash Payments for Employee Benefits	(351,045)	(13,954)	(364,999)	(159,649)
Cash Payments for Materials and Supplies	(819,842)	(326,123)	(1,145,965)	(120,086)
Cash Payments for Claims	-	-	-	(6,799,636)
Cash Payments for Other Operating Expenses	-	(46,389)	(46,389)	(325,595)
Net Cash Provided by (Used for) Operating Activities	<u>(497,996)</u>	<u>(57,099)</u>	<u>(555,095)</u>	<u>2,074,180</u>
Cash Flows from Non-Capital Financing Activities:				
Operating Grants Received	387,105	-	387,105	-
Non-operating revenue	-	500	500	429
Non-operating expenses	-	(40)	(40)	(79,785)
Advances – Out	(20,347)	(358,634)	(378,981)	(1,898,407)
Net Cash Provided by (Used for) Non-Capital Financing	<u>366,758</u>	<u>(358,174)</u>	<u>8,584</u>	<u>(1,977,763)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(166,151)	-	(166,151)	-
Principal Payment on Capital Lease	(7,888)	-	(7,888)	-
Net Cash Used for Capital and Related Financing	<u>(174,039)</u>	<u>-</u>	<u>(174,039)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest on Investments	<u>4,170</u>	<u>-</u>	<u>4,170</u>	<u>69</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(301,107)	(415,273)	(716,380)	96,486
Cash and Cash Equivalents, Beginning of Year	<u>521,272</u>	<u>415,273</u>	<u>936,545</u>	<u>1,852,464</u>
Cash and Cash Equivalents, End of Year	<u>\$ 220,165</u>	<u>\$ -</u>	<u>\$ 220,165</u>	<u>\$ 1,948,950</u>

Continued

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Cash Flows Proprietary Funds (continued)

For The Fiscal Year Ended June 30, 2003

	Food Service	Nonmajor Enterprise	Total Enterprise	Governmental Activities Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For)				
Operating Activities:				
Operating Income (Loss)	\$ (862,112)	\$ 1,591	\$ (860,521)	\$ (431,582)
Adjustments:				
Depreciation	60,027	624	60,651	28,209
Donated Commodities Received During the Year	132,026	-	132,026	-
(Increase) Decrease in Assets:				
(Increase) in Inventory	(11,099)	-	(11,099)	-
(Increase) Decrease in Accounts Receivable	46,235	-	46,235	(7,206)
Decrease in Intergovernmental Receivable	-	-	-	2,290,200
(Increase) in Interfund Receivable	-	-	-	(84,855)
Increase (Decrease) in Liabilities:				
Increase in Accounts Payable	41,935	(18,224)	23,711	56,969
Increase in Intergovernmental Payable	-	-	-	94,413
Increase (Decrease) in Accrued Wages and Benefits	89,086	(34,909)	54,177	8,473
Increase (Decrease) in Accrued Pension	5,906	(6,181)	(275)	4,261
Increase in Claims Payable	-	-	-	115,298
Total Adjustments:	<u>364,116</u>	<u>(58,690)</u>	<u>305,426</u>	<u>2,505,762</u>
Net Cash Provided By (Used For)				
Operating Activities:	\$ <u>(497,996)</u>	\$ <u>(57,099)</u>	\$ <u>(555,095)</u>	\$ <u>2,074,180</u>

Schedule of Non Cash Financing Activities:

During the year, the food services enterprise fund received donated commodities of \$132,026. Also in the Food Service Enterprise Fund, vehicles were purchased through a capital lease in the amount of \$164,142.

Mentor Exempted Village School District

Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2003

	<u>Investment Trust</u>	<u>Agency</u>
<u>Assets</u>		
Equity in Pooled Cash and Cash Equivalents	\$ <u>4,041,556</u>	\$ <u>442,197</u>
<u>Liabilities</u>		
Accounts Payable	\$ -	\$ 30,384
Due to Students	<u>-</u>	<u>411,813</u>
Total Liabilities	<u>-</u>	\$ <u>442,197</u>
<u>Net Assets</u>		
Net Assets Available to Consortium Participants	\$ <u>4,041,556</u>	

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Statement of Changes in Fiduciary Net Assets Investment Trust Fund

June 30, 2003

	<u>Investment Trust</u>
Additions:	
Contributions:	
Participant Contributions	\$ 22,473,475
Investment Earnings:	
Interest	<u>57,428</u>
Total Additions	<u>22,530,903</u>
Deductions:	
Administration Expenses	1,169,291
Claims Expense	18,285,309
Insurance Premium Expense	2,779,350
Miscellaneous Expenses	<u>18,656</u>
Total Deductions	<u>22,252,606</u>
Change in Net Assets	278,297
Net Assets at Beginning of Year	<u>3,763,259</u>
Net Assets at End of Year	\$ <u><u>4,041,556</u></u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

Mentor Exempted Village School District

Notes To Basic Financial Statements

June 30, 2003

Note 1: Description of The School District

The Mentor Exempted Village School District (the “School District”) operates under a locally elected, five member Board and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls sixteen public schools including one high school consisting of grades ten, eleven and twelve; three junior high schools with grades seven, eight, and nine; and twelve elementary schools, grades kindergarten through six. The School District also acts as the fiscal agent for a special education service center for children having severe and multiple handicaps from Lake and Geauga Counties, and for the Lake County Council of Governments Health Care Consortium.

The School District is located east of Cleveland, Ohio and serves primarily residences of Lake County and a small section of Geauga County. The School District’s population is drawn primarily from the cities of Mentor and Mentor-on-the Lake but also serves portions of the Village of Kirtland Hills and Concord Township. The School District’s population according to the Ohio Department of Taxation was 65,363 and its area covers approximately 34.5 square miles.

As of October 2003, 9,887 students were enrolled in the School District’s 16 schools. The average pupil/teacher ratio was 16.3. The School District employs approximately 765 certified staff and 327 non-teaching and support staff employees.

Note 2: Summary of Significant Accounting Policies

The basic financial statements of the Mentor Exempted Village School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District’s accounting policies are described below.

A. Reporting Entity

The School District’s reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity.” A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. Component units are legally separate organizations for which the School District is financially accountable.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the School District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the School District (the primary government). The School District has no component units.

The School District participates in one Jointly Governed Organization that is further described in Note 18.

Health Care Benefits Program of Lake County School Council

The Health Care Benefits Program of Lake County School Council ("the Program") is a pool created on October 3, 1995, formed by the Boards of Education of eleven school districts in northeast Ohio, for the purpose of undertaking a joint program for the provision of health care benefits, undertaking other cooperative programs from time to time, and fostering cooperation among those school districts in all areas of educational service. The Program was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors shall be the governing body of the Program. The Board of Education of each Program Member shall appoint its Superintendent or such Superintendent's designee to be its representative of the Program's Assembly. The Assembly elects at its annual meeting a five member Board of Directors and the officers who consist of a Chairman, Vice-Chairman and Recording Secretary, all of which serve until the next annual meeting. All of the authority of the Program shall be exercised by or under the direction of the Board of Directors. The Assembly sets and approves all benefit programs to be offered by or through the Program, and all policies and other contracts are accepted or entered into by the Board of Directors. The Board of Directors shall also set all premiums and other amounts to be paid by the Program Members, and the Board of Directors shall also have the authority to waive premiums and other payments. All members of the Board of Directors shall serve without compensation.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Program (Mentor Exempted Village School District). The Fiscal Agent shall carry out the responsibilities of the Program Fund, enter into contracts on behalf of the Program as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Treasurer of the fiscal agent is the Treasurer of the Program. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board of Directors. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, as required under the terms of the Program Agreement and any benefit program in which such District Member is enrolled, to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Program that are not covered by the premium payments shall be shared equally by the Program Members as approved by the Directors. It is the express intention of the Program Members that the Program Agreement and the Program shall continue for an indefinite term, but may be terminated as provided in the Program Agreement.

Any Program Member wishing to withdraw from participation in the Program or any benefit program shall notify the Board of Directors on or before October 15 preceding the first day of the fiscal year the member will withdraw. Specifics governing the withdrawal of a Program Member and the run out of all claims for such Program Member are addressed in Section 11 of the Program Agreement. Financial information for the Program can be obtained from Daniel L. Wilson, Chief Financial Officer of the Mentor Exempted Village School District (the Fiscal Agent) at 6451 Center Street, Mentor, Ohio 44060.

The District serves as fiscal agent and custodian of the Program, but is not accountable; therefore the operations of the Program have been excluded from the District's financial statements but the funds held on behalf of the Program are included as an investment trust fund.

B. Fund Accounting

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

Other governmental funds of the School District are used to account for the accumulation of resources for and the repayment of general long-term debt principal. Interest and related costs; for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds Proprietary funds focus on the determination of operating income/loss, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

Food Service Fund This fund accounts for the financial transactions related to the food service operations of the School District.

The other proprietary funds of the School District are used to account for the purchase and sale of school supplies, educational opportunities offered on a tuition basis to adults living within the community and a community recreation program.

Internal Service Funds Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The School District accounts for a self insurance program, which provides medical, dental and vision benefits to employees and a special education program which provides special education to a variety of Districts.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The investment trust fund is used to account for monies held on behalf of the Health Care Benefits Program of Lake County School Council for which the District is fiscal agent. The School District does not have any private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has only one agency fund, the Student Activities fund.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

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 School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities. The trust fund is reported using the economic resources measurement focus.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis of Presentation and Measurement Focus (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 School District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. 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 School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2003 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 used during the year is reported in the operating statements as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for tax rate determination.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgets (continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the School District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures for all funds, which are the legal levels of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term inter-fund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the legal level of budgetary control for a fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control for the fund.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

Cash received by the School District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. The School District's internal service fund had a balance of \$1,948,950 with the Lake County Council of Governments Health Care Benefits Program, a claim servicing pool (See Note 11). The balance in this account is presented on the financial statements as "Cash with Fiscal Agent".

During fiscal year 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. For investments in open-end mutual funds, fair value is determined by the fund's share price. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

The Mentor Exempted School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$89,592 all of which was assigned from other funds.

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

G. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. No restricted assets are required in the General Fund, see Note 19 for additional information regarding set-asides.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Inventory

On the government-wide financial statements inventories are presented at the lower of cost or market cost on a first-in, first-out basis and are expensed/expensed when used.

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis and is expensed/expensed when used. Inventories consist of donated food, purchased food, school supplies held for resale and materials and supplies held for consumption.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000, which was increased from \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business Type Activities Estimated Lives
Land Improvements	8-44 years	N/A
Buildings and Improvements	15-82 years	10 years
Furniture and Equipment	5-40 years	5-15 years
Vehicles	8-20 years	20 years

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

L. Compensated Absences

Compensated absences of the School 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 School District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

In the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Accrued Wages and Benefits" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. 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 proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and special termination benefits 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 fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five-year period is presented as reserved.

O. Net Assets

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition and miscellaneous for adult education, sales and miscellaneous for food service and uniform school supplies, a recreation program, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenditures not meeting this definition are reported as non-operating.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

R. Interfund Activity (continued)

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 funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2003, the School District sold capital assets which resulted in a gain on sale of capital assets of \$13,142.

T. Estimates

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

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

For fiscal year 2003, the School 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. 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, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 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. 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.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

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

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.

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

The government-wide financial statements show the School District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance – The implementation of these changes had the following effects on fund balance of the major and non-major funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor	Total
	<u>Fund</u>	<u>Funds</u>	<u>Activities</u>
Governmental			
Fund Balances at June 30, 2002	\$ (\$6,160,186)	\$ 1,189,212	\$ (4,970,974)
Restatement Adjustments:			
Interfund Receivable	(1,852,464)	-	(1,852,464)
Reclassification of Claims			
Payable to an Internal Service Fund	883,056	-	883,056
Amount Available as an Advance for			
Property Taxes Recorded as Revenue	<u>2,870,777</u>	<u>146,662</u>	<u>3,017,439</u>
Adjusted Fund Balances at June 30, 2002	\$ <u>(4,258,817)</u>	\$ <u>1,335,874</u>	(2,922,943)
GASB 34 Adjustments:			
Capital Assets			16,671,490
Long-Term Liabilities			(18,328,848)
Long-Term (Deferred) Assets			2,539,694
Accrued Pension			(699,225)
Accrued Interest Payable			(44,069)
Internal Service Funds			<u>993,033</u>
Net Assets at June 30, 2002			\$ <u>(1,790,868)</u>

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

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

Governmental

	<u>Activities</u> <u>Internal</u> <u>Service</u>
Fund Balances at June 30, 2002	\$ 1,423,534
Restatement Adjustments:	
Intergovernmental Payable	(1,357,238)
Intergovernmental Receivable	(139,157)
Fund Reclassification	<u>1,065,894</u>
Adjusted Fund Balance at June 30, 2002	\$ <u><u>993,033</u></u>

The Agency Funds were also restated to exclude the Employee Benefits Fund which was used to account for an insurance pool. The District now records their portion of the pool in an Internal Service Fund.

Note 4: Accountability and Legal Compliance

A. Accountability

Deficit Fund Balances The following funds had negative fund balances at June 30, 2003:

	<u>Deficit Fund Balance/</u> <u>Retained Earnings</u>
General Fund	\$ (11,832,789)
Non-major Governmental Funds:	
Title I	(27,535)
Other Grants	(9,026)
Title VIB	(54,570)
Vocational Education	(57,858)
LEP/Immigrant	(974)
Chapter II	(1,825)
Preschool Grant	(11,100)
Reducing Class Size	(652)
Drug Free School Grant	(2,021)
Building	(501,045)
Non-major Business Type Funds:	
Adult Education	(8,211)
Rotary	(561,701)

The deficits in the above funds are due to timing differences in accruing revenues and expenditures.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 4: Accountability and Legal Compliance (continued)

B. Legal Compliance

Fiscal year 2003 expenditures plus encumbrances materially exceeded the board-adopted appropriations contrary to Ohio Revised Code 5705.41(B) for the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 84,491,340	\$ 85,832,550	\$ (1,340,210)
Non-major Governmental Funds:			
Auxiliary Services	1,165,161	1,165,469	(308)
Non-major Business-Type Funds:			
Food Service	2,394,446	2,600,291	(205,845)
Rotary	138,806	158,831	(20,025)

The School District also had appropriations during the year that immaterially exceeded estimated resources, contrary to Ohio Revised Code 5705.39.

The School District had a negative cash balance in the following funds indicating that revenues from other sources were used to pay obligations of this fund, contrary to Ohio Revised Code Section 5705.10:

	<u>Amount</u>
General Fund	\$ 2,578,055
Non-major Governmental Funds:	
Emergency Immigrant Program	220
Other Grants	9,026
Non-major Business-Type Fund:	
Adult Education	8,211

Note 5: Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 5: Budgetary Basis of Accounting (continued)

2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

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

	<u>Net Change In Fund Balance</u>
GAAP Basis	\$ (7,573,972)
Net Adjustment for Revenue Accruals	1,247,044
Net Adjustment for Expenditure Accruals	(1,673,887)
Adjustment for Encumbrances	<u>1,943,313</u>
Budget Basis	\$ <u>(6,057,502)</u>

Note 6: Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school 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 located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2003 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 6: Property Taxes (continued)

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

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 1,412,020,610	86%	\$ 1,436,430,740	86%
Public Utility Personal	45,017,670	2%	42,734,840	2%
Tangible Personal Property	180,544,110	11%	182,230,555	11%
Exempt Tangible Personal Property	<u>9,385,121</u>	<u>1%</u>	<u>9,335,806</u>	<u>1%</u>
	\$ <u>1,646,967,511</u>	<u>100%</u>	\$ <u>1,670,731,941</u>	<u>100%</u>
Tax rate per \$1,000 of Assessed Valuation	66.79		66.77	

Real property taxes are payable annually or semiannually. If paid annually, payment is due January 20; if paid semiannually, the first payment is due January 20 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30 and are intended to finance the fiscal year in which they are paid. This year, the June 2003 tangible personal property tax settlement was not received until July of 2003.

The Lake County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Mentor Exempted Village School District. The Lake County Auditor periodically advances to the School District its portion of the taxes. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable include the late settlement of personal property, real, personal and public utility taxes which became measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations. The late settlement and the amount available to the School District as an advance at June 30, 2003 is recognized as revenue. At June 30, 2003, \$5,534,629 was available as an advance to the general fund, \$221,261 was available to the debt service fund and \$170,541 for the permanent improvement capital projects fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 7: Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim 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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

Interim monies are to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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 Treasurer's investment pool (STAR Ohio);

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 7: Deposits and Investments (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits At year-end, the carrying amount of the School District's deposits was (\$1,167,132) and the bank balance was \$844,589. \$317,614 of the bank balance was covered by federal depository insurance and \$526,975 was collateralized with securities held by the pledging financial institution's trust department but not in the name of the School District. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or an agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. Investments in the repurchase agreements are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements	\$ 2,820,000	\$ 2,820,000
STAR Ohio*	-	<u>5,000,000</u>
Total	<u>\$ 2,820,000</u>	<u>\$ 7,820,000</u>

* noncategorized

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 7: Deposits and Investments

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:

	Cash and Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,652,868	\$ -
Investments which are part of the cash management pool:		
Repurchase Agreement	(2,820,000)	2,820,000
STAR Ohio	<u>(5,000,000)</u>	<u>5,000,000</u>
	\$ <u><u>(1,167,132)</u></u>	\$ <u><u>7,820,000</u></u>

Of the total equity in pooled cash and investments of \$6,652,868, \$5,990,506 belongs to the Health Care Benefit Program of Lake County School Council for which Mentor Exempted Village School District is the Fiscal Agent. Of the \$5,990,506, \$1,948,950 is the School District's portion which has been classified as a restricted asset in the internal service fund on the Statement of Fund Net Assets and in the governmental activities on the Statement of Net Assets.

Note 8: Interfund Transactions

A. Interfund transactions for the year ended December 31, 2003 consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 1,897,798
Internal Service Fund	General Fund	850,721
Food Service Enterprise Fund	General Fund	12,136
Nonmajor Enterprise Funds	General Fund	366,845
Nonmajor Governmental Funds	Nonmajor Governmental Funds	9,246
Food Service Enterprise Fund	Nonmajor Enterprise Fund	<u>8,211</u>
		\$ <u><u>3,144,957</u></u>

These transactions resulted from a cash shortfall in the General Fund, Nonmajor Governmental Funds and a Nonmajor Enterprise Fund. Cash from other funds had to be used in order to cover expenditures made from these funds.

B. Interfund transfers for the year ended December 31, 2003, consisted of the following:

	<u>Amount</u>
Transfers from General Fund to:	
Nonmajor Governmental Funds	\$ 465,631
Transfer from Nonmajor Governmental Funds to:	
General Fund	15

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 8: Interfund Transactions (continued)

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

Note 9: Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the non-payment of taxes, the stable condition of state programs and the current fiscal year guarantee of federal funds.

Note 10: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Adjust- ment	June 30, 2002, Restated	Additions	Disposals	Balance June 30, 2003
Governmental Activities:						
Capital Assets, not being depreciated:						
Land	\$ 725,721	\$ -	\$ 725,721	\$ -	\$ -	\$ 725,721
Capital Assets, being depreciated:						
Land Improvements	-	2,991,229	2,991,229	63,442	-	3,054,671
Buildings and Improvements	33,556,746	1,017,224	34,573,970	243,834	-	34,817,804
Furniture and Equipment	18,869,317	(10,219,300)	8,650,017	391,280	-	9,041,297
Vehicles	4,932,481	102,646	5,035,127	1,332,014	(846,165)	5,520,976
Total Capital Assets, being depreciated	<u>57,358,544</u>	<u>(6,108,201)</u>	<u>51,250,343</u>	<u>2,030,570</u>	<u>(846,165)</u>	<u>52,434,748</u>
Less Accumulated Depreciation:						
Land Improvements	-	(2,445,034)	(2,445,034)	(145,133)	-	(2,590,167)
Buildings and Improvements	(162,354)	(23,975,053)	(24,137,407)	(874,046)	-	(25,011,453)
Furniture and Equipment	-	(5,389,076)	(5,389,076)	(792,631)	-	(6,181,707)
Vehicles	-	(3,213,321)	(3,213,321)	(515,095)	846,165	(2,882,251)
Total Accumulated Depreciation	<u>(162,354)</u>	<u>(35,022,484)</u>	<u>(35,184,838)</u>	<u>(2,326,905)</u>	<u>846,165</u>	<u>(36,665,578)</u>
Total Capital Assets being depreciated, net	<u>57,196,190</u>	<u>(41,130,685)</u>	<u>16,065,505</u>	<u>(296,335)</u>	<u>-</u>	<u>15,769,170</u>
Governmental Activities Capital Assets, Net	<u>\$ 57,921,911</u>	<u>\$ (41,130,685)</u>	<u>\$ 16,791,226</u>	<u>\$ (296,335)</u>	<u>\$ -</u>	<u>\$ 16,494,891</u>
Business-Type Activities						
Buildings and Improvements	\$ 6,234	\$ -	\$ 6,234	\$ -	\$ -	\$ 6,234
Furniture and Equipment	572,045	-	572,045	166,151	-	738,196
Vehicles	-	-	-	164,142	-	164,142
Less Accumulated Depreciation	<u>(404,874)</u>	<u>-</u>	<u>(404,874)</u>	<u>(60,651)</u>	<u>-</u>	<u>(465,525)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 173,405</u>	<u>\$ -</u>	<u>\$ 173,405</u>	<u>\$ 269,642</u>	<u>\$ -</u>	<u>\$ 443,047</u>

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 10: Capital Assets (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 1,719,917
Special	1,150
Vocational	23,109

Support Services:

Pupil	1,974
Administration	28,209
Business	273
Operation and Maintenance of Plant	61,355
Pupil Transportation	474,078
Central	12,091
Community Services	665
Extracurricular Activities	<u>4,084</u>

Total Depreciation Expense \$ 2,326,905

Note 11: Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the School District contracted with Indiana Insurance Company for property, building contents, and data processing insurance.

Indiana Insurance Company covers the boiler and machinery. There is a \$1,000 and \$500 deductible per occurrence. General liability is protected by Indiana Insurance Company with a \$1,000,000 single occurrence limit, a \$5,000,000 aggregate and a \$5,000 deductible. Vehicles are covered by Indiana Insurance Company and hold a \$500 deductible for comprehensive collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past ten years. There have been no significant reductions in insurance coverage from the prior year.

B. Workers' Compensation

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 11: Risk Management (continued)

B. Workers' Compensation (continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all 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 share 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 & Company provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The June 30, 2003 claims liability and cash with fiscal agent are determined based on the percentage of the School District's participants to total pool participants. For the Year ended June 30, 2003, the pool's cash reserves and claims liability were \$5,990,506 and \$2,772,079, respectively. The School District's allocated pool percentage for the year ended June 30, 2003 was 32.5 percent, which represents \$1,948,950 and \$901,868 of pool cash reserves and claims liabilities, respectively.

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
June 30, 2002	622,128	6,416,086	6,155,158	883,056
June 30, 2003	883,056	6,818,448	6,799,636	901,868

Note 12: Defined Benefit Pension Plans

A. School Employees Retirement System

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 12: Defined Benefit Pension Plans (continued)

A. School Employees Retirement System (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,838,875, \$1,666,054, and \$1,690,356, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 12: Defined Benefit Pension Plans (continued)

B. State Teachers Retirement System (continued)

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$6,478,736, \$6,165,629, and \$5,952,243, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, no employees of the School District elected Social Security.

Note 13: Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$2,082,451 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 13: Postemployment Benefits (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$1,213,985.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 14: Other Employee Benefits

A. Compensated Absences

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum accumulation of 95 days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

B. Early Retirement Incentive

The District Board of Education has approved an early retirement incentive program for certified and classified employees. For classified employees, the bonus is as follows:

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 14: Other Employee Benefits (continued)

B. Early Retirement Incentive (continued)

Any employee who first becomes eligible for SERS retirement before July 1, 2003, shall be entitled to a retirement incentive bonus amounting to forty percent (40%) of said employee's highest earnings in any employment year with the Board inclusive of longevity, overtime, supplemental contracts, if any, and any other income reported to the government, during the period of July 1 through June 30, provided the employee retires during the first year of eligibility during the term of this Agreement. Employees previously eligible to retire and continue to be employed will be eligible for a twenty-five percent (25%) one-time bonus if the employee retires before July 1, 2003. For certified employees the bonus is as follows: Any employee who is currently eligible for retirement with the State Teachers Retirement System or becomes eligible by the end of the 2002-2003 school year shall be entitled to a retirement incentive in the amount of \$15,000 as listed under the articles of this program. Those individuals who were eligible during the 2002-2003 school year and do not elect this incentive, will receive \$7,500 during the second year eligibility. If the retirement incentive is not taken during the first or second year of eligibility, then the employee will no longer be eligible.

The liability of or the unpaid severance, in the amount of \$395,720 has been included as accrued wages and benefits on the statement of net assets. This obligation will ultimately be paid from the fund which the employee was paid.

Note 15: Long - Term Liabilities

All bonds outstanding are general obligations 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 for in the general long-term obligations account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 1.14 mill bonded-debt tax levy.

	<u>Original Bond Issue</u>	<u>Interest Rate</u>	<u>Issue Date</u>
School Improvement Refunding	\$ 4,514,993	2.20% – 11.19%	10/ 01/ 01
School Improvement Refunding	<u>12,729,687</u>	2.30% – 5.375%	03/ 01/ 93
	<u>\$ 17,244,680</u>		

On March 1, 1993, the District issued \$12,729,687 in school improvement refunding bonds with interest rates ranging from 2.30% to 5.375% to advance refund \$12,730,000 of outstanding School Improvement Bonds, Series 1989 with interest rates ranging from 7.00% to 7.40%. The proceeds of the Bonds plus an original issue premium were used to purchase State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1989 bonds. As a result, the Series 1989 bonds are considered to be defeased and the liability for those bonds were removed in 1993. On December 1, 1999, the Series 1989 school improvement bonds outstanding were paid in full.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 15: Long - Term Liabilities (continued)

On October 1, 2001, the District issued \$4,514,993 in school improvement refunding bonds with interest rates ranging from 2.20% to 11.19% to advance refund \$8,600,000 of outstanding School Improvement Bonds, Series 1991 with interest rates averaging from 6.38%. The proceeds of the Bonds plus an original issue premium were used to purchase State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1991 bonds. As a result, the Series 1991 bonds are considered to be defeased and the liability for those bonds were removed in 2001. On December 1, 2001, the Series 1991 school improvement bonds were called.

The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding <u>6/30/02</u>	Additions	Reductions	Principal Outstanding <u>6/30/03</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
School Improvement Refunding Bonds, 2.20%-5.375%, 12/11 maturity	\$ 8,406,859	-	\$ 121,933	\$ 8,284,926	\$ 99,926
School Improvement Refunding Bonds 2.20%-11.19%, 12/13 maturity	4,515,000	-	345,000	4,170,000	365,000
Capital Lease Obligations	733,869	1,007,040	683,506	1,057,403	342,428
Compensated Absences	<u>4,117,893</u>	<u>766,449</u>	<u>287,749</u>	<u>4,596,593</u>	<u>321,761</u>
Total Governmental Long-Term Liabilities	\$ <u>17,773,621</u>	\$ <u>1,773,489</u>	\$ <u>1,438,188</u>	\$ <u>18,108,922</u>	\$ <u>1,129,115</u>
Business-Type Activities					
Capital Lease Obligations	\$ <u>-</u>	\$ <u>164,142</u>	\$ <u>7,888</u>	\$ <u>156,254</u>	\$ <u>19,790</u>

At June 30, 2003 the School District's overall legal debt margin was \$138,165,608 with an unvoted debt margin of \$1,661,396. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2003 are as follows:

Fiscal Year Ending <u>June 30</u>	General Obligation Bonds		Total
	Principal	Interest	
2004	\$ 464,926	\$ 1,308,052	\$ 1,772,978
2005	1,225,000	528,292	1,753,292
2006	1,280,000	475,069	1,755,069
2007	1,166,697	422,076	1,588,773
2008	1,193,303	370,207	1,563,510
2009 - 2013	6,650,000	813,386	7,463,386
2014	<u>475,000</u>	<u>9,856</u>	<u>484,856</u>
Total	\$ <u>12,454,926</u>	\$ <u>3,926,938</u>	\$ <u>16,381,864</u>

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 16: Capital Lease Obligations

The District has entered into capital leases for technology/electrical upgrades, vehicles and acquisition of equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reflected as program/function expenditures in the basic financial statements.

Governmental activities and business-type activities capital assets consisting of technology/electrical equipment and upgrades and vehicles have been capitalized in the amount of \$1,610,759 and \$164,142, respectively. These amounts represent the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements as well as the Statement of Net Assets for Proprietary Funds. Principal payments in the 2003 fiscal year totaled \$683,506 and \$7,888, respectively for the governmental activities and the business-type activities. These amounts are reported as program/function expenditures of the General Fund and as an expense in the Food Service Enterprise Fund, respectively for the governmental activities and the business-type activities.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

<u>Year Ending June 30,</u>	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
	<u>Amount</u>	<u>Amount</u>
2004	\$ 401,456	\$ 29,040
2005	300,657	29,040
2006	256,169	29,040
2007	215,297	29,040
2008	-	29,040
2009 – 2010	<u>-</u>	<u>45,980</u>
Total minimum lease payment	1,173,578	191,180
Less: amount representing interest	<u>(116,175)</u>	<u>(34,926)</u>
Present value of minimum lease payments	\$ <u>1,057,403</u>	\$ <u>156,254</u>

Note 17: Notes Payable

In accordance with Ohio law, general obligation note debt service (interest and fiscal charges) was recorded in the Debt Service Fund. GASB Codification B50.101 requires the Debt Service Fund present general obligation long-term debt principal and interest retirement only and that anticipation notes payable be shown as liabilities of the funds which receive the note proceeds. Accordingly, bond anticipation notes have been reported in the capital projects fund. Tax anticipation notes were issued in June 2003 for \$5,000,000 maturing in June 2004, with an average interest rate of 2.0 percent. Balance outstanding at June 30, 2003 was \$5,000,000.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 17: Notes Payable (continued)

Outstanding	Interest Rate	Issue Date	Maturity Date	Outstanding	Addition	Redemption	End of Period
				Beginning of Year	During Year	During Year	
Tax Anticipation Note	2.00%	06/26/03	06/26/04	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Energy Conservation Note	2.09%	05/04/02	05/03/03	750,000	-	(750,000)	-
Energy Conservation Note	1.29%	05/01/03	05/01/04	-	500,000	-	500,000
				\$ <u>750,000</u>	\$ <u>-</u>	\$ <u>(250,000)</u>	\$ <u>5,500,000</u>

Note 18: Jointly Governed Organizations

The Ohio Schools Council (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2002 the School District paid \$3,905 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school district will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

Note 19: Set-Aside Calculations

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

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

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 19: Set-Aside Calculations (continued)

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>
Set-Aside Reserve Balance as of July 1, 2002, Restated*	\$ (528,668)	\$ -
Current Year Set-Aside Requirements	1,386,090	1,386,090
Offset Credits		(1,000,905)
Qualifying Disbursements	<u>(1,303,060)</u>	<u>(905,248)</u>
Total	\$ <u>(445,638)</u>	\$ <u>(520,063)</u>
Set-aside Balance Carried Forward To Future Fiscal Years	\$ <u>(445,638)</u>	\$ <u>-</u>
Set-aside Reserve Balance as of June 30, 2003	\$ <u>-</u>	\$ <u>-</u>

*The prior year's textbook reserve was overstated by \$1,497,949.

The School District had qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amounts below zero. This amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Note 20: Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The Mentor Exempted Village School District is a party to legal proceedings. The School District management is of the opinion that ultimate disposition of these claims will not have a material effect on the financial condition of the School District.

Mentor Exempted Village School District

Notes To Basic Financial Statements (continued)

June 30, 2003

Note 21: 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 22: Subsequent Event

On March 2, 2004, the voters defeated a 7.9 mill additional emergency levy. The levy was requested to eliminate an estimated budget shortfall for fiscal year 2004. The School District will place the issue on the ballot again in a special election in August 2004.

Note 23: Fiscal Emergency

In accordance with Ohio Revised Code Chapter 3316, the School District was placed under fiscal emergency by the Auditor of State in February of 2004. The declaration of fiscal emergency results from spending exceeding revenues, relying on carryover cash balances from prior years, and borrowing to finance recent deficits. The financial operation of the School District has in part been turned over to the Financial Planning and Supervision Commission. This commission is comprised of five members including the Superintendent of Public Instruction and the School Management Assistance Assistant Director.

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**Report On Compliance and On Internal Control Over
Financial Reporting Based On an Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards***

Board of Education
Mentor Exempted Village School District
Mentor, Ohio

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mentor Exempted Village School District, Lake County, Ohio (the "District"), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 21, 2004 wherein we noted the District adopted Government Accounting Standards Board Statement No. 34, Interpretation No. 6 and changed its accounting for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2003-1, 2003-2, 2003-3 and 2003-4. We also noted certain immaterial instances of noncompliance, which we have reported to management of the Mentor Exempted Village School District in a separate letter dated May 21, 2004.

Board of Education
Mentor Exempted Village School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-5.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated May 21, 2004.

This report is intended solely for the information and use of the Mentor Exempted Village School District's Board of Education, the District's Management, The Auditor of State, 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.

Cini & Parichi, Inc.

Cleveland, Ohio
May 21, 2004

**Report On Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Education
Mentor Exempted Village School District

Compliance

We have audited the compliance of the Mentor Exempted Village School District, Lake 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 each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 of 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 each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that do not require inclusion in this report, which we have reported to management of the District in a separate letter dated May 21, 2004.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2003, and have issued our report thereon dated May 21, 2004. Our audit was performed for the purpose of forming an opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the District's Board of Education, the District's Management, the Auditor of State, 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.

Cini & Parichi, Inc.

Cleveland, Ohio
May 21, 2004

Mentor Exempted Village School District

Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture: Passed-Through State Department of Education: Child Nutrition Cluster						
Food Distribution Program	10.550	N/A	\$ -	\$ 132,122	\$ -	\$ 132,122
School Lunch Program	10.555	045492-LL-P4-02	94,323	-	94,323	-
	10.555	045492-LL-P4-03	238,799	-	235,819	-
	10.555	045492-VG-S1-03	40,930	-	41,244	-
			<u>374,052</u>	<u>-</u>	<u>371,386</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>374,052</u>	<u>132,122</u>	<u>371,386</u>	<u>132,122</u>
U.S. Department of Education: Passed-Through State Department of Education: Special Education Cluster						
Special Education – Title VI-B	84.027	045492-6B-SD-03P	15,000	-	280	-
	84.027	045492-6B-SF-02P	204,066	-	314,078	-
	84.027	045492-6B-SF-03P	508,035	-	501,320	-
	84.027	045492-6B-SI-02P	304,869	-	417,940	-
	84.027	045492-6B-SX-02P	21,000	-	20,191	-
			<u>1,052,970</u>	<u>-</u>	<u>1,253,809</u>	<u>-</u>
Special Education – Preschool	84.173	045492-PG-S1-03P	29,435	-	28,694	-
	84.173	045492-PG-S1-02P	-	-	7,144	-
	84.173	045492-PG-S3-02P	13,811	-	34,567	-
	84.173	045492-PG-S7-02	-	-	6,371	-
			<u>43,246</u>	<u>-</u>	<u>76,776</u>	<u>-</u>
Total Special Education Cluster			<u>1,096,216</u>	<u>-</u>	<u>1,330,585</u>	<u>-</u>

The accompanying notes are an integral part of this schedule

Mentor Exempted Village School District

Schedule of Expenditures of Federal Awards (Continued)

For The Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-Cash Disburse- ments
U.S. Department of Education (Continued):						
Passed-Through State Department of Education (Continued):						
Title I	84.010	045492-C1-S1-02	116,950	-	102,928	-
	84.010	045492-C1-S1-03	<u>232,112</u>	<u>-</u>	<u>229,067</u>	<u>-</u>
			<u>349,062</u>	<u>-</u>	<u>331,995</u>	<u>-</u>
VOCED Basic Grant	84.048	045492-20-A0-02	24,499	-	24,499	-
	84.048	045492-20-C1-02	71,853	-	117,158	-
	84.048	045492-20-C1-03	<u>213,524</u>	<u>-</u>	<u>247,513</u>	<u>-</u>
			<u>309,876</u>	<u>-</u>	<u>389,170</u>	<u>-</u>
Chapter 2 – Innovative Education Program Strategy	84.298	045492-C2-S1-01	15,976	-	25,553	-
	84.298	045492-C2-S1-02	-	-	8,105	-
	84.298	045492-C2-S1-03	<u>24,909</u>	<u>-</u>	<u>23,914</u>	<u>-</u>
			<u>40,885</u>	<u>-</u>	<u>57,572</u>	<u>-</u>
Eisenhower Math/Science	84.281	045492-MS-S1-02	-	-	6,612	-
	84.281	045492-MS-S1-01	<u>725</u>	<u>-</u>	<u>2,609</u>	<u>-</u>
			<u>725</u>	<u>-</u>	<u>9,221</u>	<u>-</u>
Drug-Free Education	84.186	045492-DR-S1-02	26,908	-	34,773	-
	84.186	045492-DR-S1-03	<u>37,597</u>	<u>-</u>	<u>35,698</u>	<u>-</u>
			<u>64,505</u>	<u>-</u>	<u>70,471</u>	<u>-</u>
Goals 2000	84.276	045492-G2-S9-01	<u>56,000</u>	<u>-</u>	<u>38,563</u>	<u>-</u>
Education Technology	84.318	045492-TJ-S1-03	<u>1,875</u>	<u>-</u>	<u>2,625</u>	<u>-</u>

The accompanying notes are an integral part of this schedule

Mentor Exempted Village School District

Schedule of Expenditures of Federal Awards (Continued)

For The Year Ended June 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Receipts</u>	<u>Non-cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
U.S. Department of Education (Continued):						
Passed-Through State Department of Education (Continued):						
Comprehensive School Reform	84.332	045492-RF-S1-01	17,951	-	22,166	-
	84.332	045492-RF-S2-02	<u>53,731</u>	<u>-</u>	<u>50,054</u>	<u>-</u>
			<u>71,682</u>	<u>-</u>	<u>72,220</u>	<u>-</u>
Class Size Reduction Subsidy	84.340	045492-CR-S1-01	10,798	-	1,130	-
	84.340	045492-CR-S1-02	<u>31,088</u>	<u>-</u>	<u>70,658</u>	<u>-</u>
			<u>41,886</u>	<u>-</u>	<u>71,788</u>	<u>-</u>
School Renovation Grant	84.352A	045492-AT-S2-02	10,524	-	10,524	-
	84.352A	045492-AT-S3-02	<u>57,666</u>	<u>-</u>	<u>51,037</u>	<u>-</u>
			<u>68,190</u>	<u>-</u>	<u>61,561</u>	<u>-</u>
English Language Acquisition Grant	84.365	045492-TS-31-03	<u>6,439</u>	<u>-</u>	<u>8,627</u>	<u>-</u>
Improving Teacher Quality	84.367	045492-TR-S1-03	<u>161,201</u>	<u>-</u>	<u>147,961</u>	<u>-</u>
Total U.S. Department of Education			<u>2,268,542</u>	<u>-</u>	<u>2,592,359</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,642,594</u>	<u>\$ 132,122</u>	<u>\$ 2,963,745</u>	<u>\$ 132,122</u>

The accompanying notes are an integral part of this schedule

Mentor Exempted Village School District

Notes to The Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2003

Note 1: Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Non-Cash Support

The District receives non-cash support in the form of food subsidies from the National School Lunch Program (“NSLP”), CFDA 10.550. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

CFDA – Catalog of Federal Domestic Assistance

Mentor Exempted Village School District

Schedule of Findings OMB Circular A-133 Section .505

June 30, 2003

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Special Education Cluster CFDA Nos. 84.027, 84.173 Title I CFDA No. 84.010
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

2. Findings Related To the Financial Statements Required To Be Reported In Accordance With GAGAS

2003-1 Ohio Revised Code 5705.41(B) states that no subdivision or taking unit is to expend money unless it has been appropriated.

At June 30, 2003, the District had expenditures in excess of appropriations as follows:

General Fund	\$ 1,340,210
Non-major Governmental Fund:	
Auxiliary Service Fund	308
Business-Type Fund:	
Food Service	205,845
Non-major Business-Type Fund:	
Rotary	20,025

Mentor Exempted Village School District

Schedule of Findings (Continued) OMB Circular A-133 Section .505

June 30, 2003

2003-2 Ohio Revised Code Section 133.10 (H) (1) states that none of the proceeds received by the school district from the sale of securities shall be considered available for appropriation prior to the first day of the fiscal year for which the revenues are anticipated. During our audit we noted that there was a tax anticipation note issued June 26, 2003 for fiscal year 2004. The District improperly appropriated these funds for fiscal year 2003.

2003-3 Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had deficit cash balances at June 30, 2003:

General Fund	\$ 2,578,055
Non-major Governmental Funds:	
Emergency Immigrant Program	220
Other Grants	9,026
Non-major Business-Type Fund:	
Adult Education	8,211

2003-4 The Ohio Revised Code section 5705.391(B) states that school districts are required to prepare 5-year projections of revenues and expenditures as part of the spending plans. Per Auditor of State Bulletin 98-015 and Ohio Administrative Code 3301-92-04, the projections are to be updated by June 30 for any change in estimates of either revenues or expenditures of five percent or more. Also, per Auditor of State Bulletin 98-015, if the revenue or expenditure estimates or assumptions for certifications under Ohio revised Code section 5705.412 differs from the forecast, the forecast must be updated to reflect the new information.

During our testing of the 5-year projections, we noted that the only changes during the fiscal year were in November 2002 and May 2003. No updates had been made for 412 certificates issued in fiscal year 2003 nor when there was a change in estimates of either revenues or expenditures of five percent or more.

Mentor Exempted Village School District

Schedule of Findings (Continued) OMB Circular A-133 Section .505

June 30, 2003

2003-5 Reportable Condition

As discussed in Finding 2003-2, a tax anticipation note issued for fiscal year 2004 was instead used for fiscal year 2003 expenditures, and was needed to cover borrowings from the funds of a consortium, of which Mentor Exempted Village School District was the fiscal agent. The consortium's funds had been commingled with the District's funds, and were used to pay School District obligations when other funds were unavailable.

Although some formal approval procedures were in place, there was a lack of overall control consciousness on the part of the District's Board of Education and management. This led to inadequate provisions for the safeguarding of the assets of the consortium and the ability of individuals within the District to intentionally override the control system that was in place.

We recommend that more detailed procedures for financial monitoring be put into place at both the Board of Education and District management level, and that reports prepared for use of the Board of Education contain sufficient detail so that they may readily highlight the current status of key School District financial areas. We further recommend that a feature of any fiscal agent arrangements in which the District participates be the establishment of a separate bank account for each such arrangement to ensure that funds are only being used for their designated purposes and also to reduce the chance of possible errors.

3. Findings for Federal Awards

There were no findings for federal awards to report in 2003.

Mentor Exempted Village School District

Schedule of Prior Audit Findings OMB Circular A-133 Section .315(B)

June 30, 2003

Findings No.	Findings Summary	Fully Corrected	Explanation
2002-1	Per ORC Section 3315.18, the District is required to restrict cash in an amount equal to the applicable reserves. The District restricts cash and cash equivalents for the purchase of technology/electrical upgrades and for the establishment of a capital maintenance reserve and a textbook reserve. However, the general fund did not have enough cash to meet the reserve requirements.	Yes	Due to a reclassification of the reserve at June 30, 2002, there was no need for this reserve at June 30, 2002. Also, there was not need for a reservation at June 30, 2003.

Mentor Exempted Village School District
6451 Center Street
Mentor, Ohio 44060
(440) 255-4444

**Response To Findings Associated With Audit Conducted
In Accordance With *Government Auditing Standards*
For The Year Ended June 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-1	The District will monitor expenditures to ensure that they do not exceed appropriations.	N/A	Daniel L. Wilson, Treasurer
2003-2	The District will make sure that proceeds received prior to the first day of the fiscal year will not be appropriated for until the proper period.	N/A	Daniel L. Wilson, Treasurer
2003-3	The District will monitor the cash fund balances and properly advance funds to cover deficit balances, if necessary.	N/A	Daniel L. Wilson, Treasurer
2003-4	The District will monitor the 5-year forecast so that it is properly updated when necessary.	N/A	Daniel L. Wilson, Treasurer
2003-5	The District will create more detailed procedures for financial monitoring to be put into place for both the Board of Education and District management, and that reports prepared for use of the Board of Education contain sufficient detail so that they may readily highlight the current status of key School District financial areas. The District will also establish a separate bank account for the consortium to ensure that funds are only being used for their designated purposes and also to reduce the chance of possible errors.	N/A	Daniel L. Wilson, Treasurer



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MENTOR EXEMPTED VILLAGE SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 29, 2004**