



**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Medina City School District, Medina County, Ohio, as of June 30, 2004, and the respective changes in financial position, 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 further described in Note 3, the Districted restated its net assets at June 30, 2003, to account for an overstatement of its capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

February 18, 2005

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

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

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- In total, net assets decreased by \$2,654,879.
- Revenues for governmental activities totaled \$69,760,076 in 2004. Of this total, 91.2 percent consisted of General revenues while Program revenues accounted for the balance of 8.8 percent
- Program expenses totaled \$72,414,955. Instructional expenses made up 53.3 percent of this total while support services accounted for 35.6 percent. Other expenses rounded out the remaining 11.1 percent.
- Outstanding debt decreased to \$91,227,679 from \$92,646,358 in 2003.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

The School District as a Whole

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

		Table I Net Assets	
		<u>Governmental Activities</u>	
		<u>2004</u>	<u>2003</u>
Assets			
Current and Other Assets		\$66,735,488	\$74,748,279
Capital Assets, Net		<u>102,151,140</u>	<u>97,760,560</u>
Total Assets		<u>168,886,628</u>	<u>172,508,839</u>
Liabilities			
Current and Other Liabilities		47,952,088	47,589,568
Long-Term Liabilities:			
Due Within One Year		3,796,461	2,886,272
Due in More than One Year		<u>93,481,313</u>	<u>95,721,354</u>
Total Liabilities		<u>145,229,862</u>	<u>146,197,194</u>
Net Assets			
Invested in Capital Assets, Net of Debt Restricted		17,761,333	10,890,886
Capital Projects		1,471,099	4,813,275
Set Asides		229,687	229,687
Other Purposes		1,704,096	1,416,199
Unrestricted		<u>2,490,551</u>	<u>8,961,598</u>
Total Net Assets		<u><u>\$23,656,766</u></u>	<u><u>\$26,311,645</u></u>

Total assets decreased by \$3,622,211. The majority of this decrease can be attributed directly to cash decreasing almost \$8 million offset by the increase in capital assets.

Total liabilities decreased by \$967,332. The most notable areas that decreased were long-term liabilities due within more than one year, which decreased by \$2,240,041, and contracts payable, which decreased by \$619,683. The most notable area of increase was notes payable which increased by \$1,000,000.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$63,629,820 or 91.2 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equaled \$6,130,256 or only 8.8 percent of total revenue.

Medina City School District
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for fiscal year 2004 and 2003.

Table 2
Changes in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program Revenues:		
Charges for Services	\$2,842,924	\$2,904,019
Operating Grants and Contributions	3,251,932	2,421,970
Capital Grants and Contributions	35,400	69,609
<i>Total Program Revenues</i>	<u>6,130,256</u>	<u>5,395,598</u>
General Revenues:		
Property Taxes	41,127,363	40,373,356
Grants and Entitlements	21,935,229	24,361,727
Investments	277,491	2,131,019
Miscellaneous	289,737	1,700,581
<i>Total General Revenues</i>	<u>63,629,820</u>	<u>68,566,683</u>
Total Revenues	<u>69,760,076</u>	<u>73,962,281</u>
Program Expenses		
Instruction		
Regular	30,492,589	42,052,865
Special	7,360,275	6,990,267
Vocational	726,501	490,174
Support Services:		
Pupil	3,634,259	3,436,933
Instructional Staff	3,923,053	3,785,835
Board of Education	100,340	98,298
Administration	4,945,246	4,489,018
Fiscal	1,484,397	1,482,539
Business	714,165	904,089
Operation and Maintenance	7,491,936	8,511,346
Pupil Transportation	3,073,033	3,538,502
Central	410,944	440,298
Operating of Non-Instructional Services	721,010	777,586
Food Service Operations	1,346,962	1,335,125
Extracurricular Activities	1,443,639	1,735,382
Interest and Fiscal Charges	4,546,606	5,657,230
Total Program Expenses	<u>72,414,955</u>	<u>85,725,487</u>
Decrease in Net Assets	(2,654,879)	(11,763,206)
Net Assets Beginning of Year	<u>26,311,645</u>	<u>38,074,851</u>
Net Assets End of Year	<u><u>\$23,656,766</u></u>	<u><u>\$26,311,645</u></u>

Medina City School District
Management's Discussion and Analysis
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Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In May of 1995, the School District successfully passed an 8.4 mill continuing levy that is currently generating \$5.8 million dollars per year in revenue. Collections began the second half of fiscal year 1996. The full effect of this levy was realized in fiscal year 1997. This income is dedicated to the operational and capital needs of the School District.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As one can see, 53.3 percent of the School District's expenses are for instruction. Additional supporting services for pupils, staff and business operations encompass an additional 35.6 percent. The remaining amount of program expenses, roughly 11.1 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The H.G. Blake Elementary School opened in the fall of 2001. The Medina Senior High School expansion was completed in the fall of 2003.

Regular Instruction cost decreased 27.5 percent from 2003 to 2004. The decrease was mainly due to reductions in costs following several levy failures.

Operation and Maintenance cost decreased 11.98 percent from 2003 to 2004. The decrease was due to reductions following the May 2003 levy failure.

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

Table 3
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction		
Regular	\$30,492,589	(\$29,571,359)
Special	7,360,275	(6,457,883)
Vocational	726,501	(538,620)
Support Services:		
Pupil	3,634,259	(3,113,572)
Instructional Staff	3,923,053	(3,340,134)
Board of Education	100,340	(100,340)
Administration	4,945,246	(4,408,266)
Fiscal	1,484,397	(1,484,397)
Business	714,165	(703,106)
Operation and Maintenance	7,491,936	(7,462,201)
Pupil Transportation	3,073,033	(3,037,006)
Central	410,944	(358,035)
Operating of Non-Instructional Services	721,010	(118,239)
Food Service Operations	1,346,962	194,633
Extracurricular Activities	1,443,639	(1,239,568)
Interest and Fiscal Charges	4,546,606	(4,546,606)
Total	\$72,414,955	(\$66,284,699)

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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 56.8 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 30.3 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 8.5 percent of all governmental expenses.

Clearly, the Medina community is by far the greatest source of financial support for the students of the Medina City Schools.

School District's Funds

Information regarding the School District's major funds can be found on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$69,809,766 and expenditures of \$77,668,057. The \$5.38 million decline in the general fund balance is due to the School District not generating enough revenues to cover expenditures.

General Fund Budgeting Highlights

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

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

For the general fund, the final budget basis revenue estimate totaled \$56,025,754; this was above original budget estimates of \$55,436,192. The main difference between the original and final estimates was due to an under estimation of intergovernmental receipts. The budget basis expenditures estimate totaled \$62,811,542 compared to original estimates of \$64,879,970. This difference was primarily due to reductions in non-personnel costs throughout the year.

The School District's unencumbered ending cash balance totaled \$13,662,434, which was above the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the School District had \$102,151,140 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 shows fiscal 2004 values compared to 2003.

Medina City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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Table 4
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$3,016,769	\$3,016,769
Land Improvements	1,580,698	1,093,714
Buildings and Improvements	94,834,363	22,500,314
Furniture and Equipment	592,900	205,382
Vehicles	2,126,410	2,468,416
Construction in Progress	0	68,475,965
Totals	\$102,151,140	\$97,760,560

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, the main increase in capital assets during the fiscal year occurred in the buildings and improvements category. The increase in the buildings and improvements category is almost entirely due to the reclassification of the senior high project from construction in progress to buildings and improvements after the project was completed in the fall of 2003. For more information on capital assets refer to Note 9 of the basic financial statements.

Debt

At June 30, 2004 the School District had \$91,227,679 in debt outstanding. Table 5 below summarizes the School District's debt outstanding.

Table 5
 Outstanding Debt at Year End

	Governmental Activities	
	2004	2003
1992 Various School Improvements	\$3,476,539	\$4,301,266
1998 Refunding Bonds	11,646,115	11,643,179
1999 Various School Improvements	75,105,025	76,701,913
2004 Transportation Facilities Notes	1,000,000	0
Totals	\$91,227,679	\$92,646,358

The 1992 school improvement bonds were issued to add the A. I. Root Middle School and to upgrade the Ella Canavan Elementary School. This debt will be fully repaid in calendar year 2008.

The 1998 refunding bonds were issued to advance refund the 1992 various school improvement bonds. This debt will be fully repaid in the year 2018. The 1992, 1998 and 1999 general obligation bonds include capital appreciation bonds. Each year, an annual amount of accretion of discounted interest has to be added to the principal amount of the bonds.

The 1999 school improvement bonds were issued to add the H. G. Blake Elementary School, expand the Medina Senior High School, and to purchase land for a future middle school and two future elementary schools. This debt will be fully repaid in calendar year 2028.

Medina City School District
Management's Discussion and Analysis
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The School District's overall legal debt margin was \$13,101,176 with an unvoted debt margin of \$1,033,139. The School District maintains an Aa3 bond rating. For more information on debt refer to Note 15 of the basic financial statements.

School District Outlook

The Board of Education and administration closely monitor School District revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan. The School District ranks among the top schools in Ohio for educational excellence.

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

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the District is quite strong. As mentioned earlier, the Medina voters had passed an 8.4 mill replacement levy in May of 1995, which will help fund the general operations and permanent improvements of the School District. The School District's current five year forecast presents a positive general fund balance through the end of the 2006 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2006 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. See Note 20 to the basic financial statements for more on this contingent matter.

Medina City School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at an inflationary rate of 2.2 percent per year for future years. The effect of a 2004 triennial update will have a negative effect on the State's share of per pupil funding. With 57.6 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Wallace M. Gordon, Treasurer/Chief Financial Officer, at Medina City School District, 120 West Washington Street, Medina, Ohio 44256, or email at WGordon@mcsd.org.

Medina City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$23,507,842
Accounts Receivable	241,516
Intergovernmental Receivable	624,549
Prepaid Items	562,970
Inventory Held for Resale	33,221
Materials and Supplies Inventory	33,173
Property Taxes Receivable	41,732,217
Nondepreciable Capital Assets	3,016,769
Depreciable Capital Assets, Net	<u>99,134,371</u>
<i>Total Assets</i>	<u>168,886,628</u>
Liabilities	
Accounts Payable	344,879
Contracts Payable	37,631
Accrued Wages	5,056,893
Intergovernmental Payable	2,175,770
Deferred Revenue	38,926,965
Notes Payable	1,000,000
Accrued Interest Payable	409,950
Long-Term Liabilities:	
Due Within One Year	3,796,461
Due In More Than One Year	<u>93,481,313</u>
<i>Total Liabilities</i>	<u>145,229,862</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	17,761,333
Restricted for:	
Capital Projects	1,471,099
Set-Asides	229,687
Public School Support	543,196
Food Service	538,522
Other Purposes	622,378
Unrestricted	<u>2,490,551</u>
<i>Total Net Assets</i>	<u><u>\$23,656,766</u></u>

See accompanying notes to the basic financial statements

Medina City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$30,492,589	\$601,338	\$319,892	\$0	(\$29,571,359)
Special	7,360,275	133,465	768,927	0	(6,457,883)
Vocational	726,501	6,962	180,919	0	(538,620)
Support Services:					
Pupils	3,634,259	0	520,687	0	(3,113,572)
Instructional Staff	3,923,053	94,409	488,510	0	(3,340,134)
Board of Education	100,340	0	0	0	(100,340)
Administration	4,945,246	377,679	159,301	0	(4,408,266)
Fiscal	1,484,397	0	0	0	(1,484,397)
Business	714,165	9,402	1,657	0	(703,106)
Operation and Maintenance of Plant	7,491,936	29,735	0	0	(7,462,201)
Pupil Transportation	3,073,033	0	627	35,400	(3,037,006)
Central	410,944	0	52,909	0	(358,035)
Operation of Non-Instructional Services	721,010	0	602,771	0	(118,239)
Food Service Operations	1,346,962	1,388,649	152,946	0	194,633
Extracurricular Activities	1,443,639	201,285	2,786	0	(1,239,568)
Interest and Fiscal Charges	4,546,606	0	0	0	(4,546,606)
<i>Totals</i>	<u>\$72,414,955</u>	<u>\$2,842,924</u>	<u>\$3,251,932</u>	<u>\$35,400</u>	<u>(66,284,699)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	33,838,374
Debt Service	6,768,939
Capital Projects	520,050
Grants and Entitlements not Restricted	
to Specific Programs	21,935,229
Investment Earnings	277,491
Miscellaneous	<u>289,737</u>
<i>Total General Revenues</i>	63,629,820
Change in Net Assets	(2,654,879)
Net Assets Beginning of Year - Restated (See Note 3)	<u>26,311,645</u>
<i>Net Assets End of Year</i>	<u><u>\$23,656,766</u></u>

See accompanying notes to the basic financial statements

Medina City School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Bond Retirement	Building
Assets			
Equity in Pooled Cash and Cash Equivalents	\$14,914,433	\$4,134,827	\$2,158,991
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	229,687	0	0
Receivables:			
Property Taxes	34,331,120	6,872,393	0
Accounts	5,612	0	232,471
Interfund	70,200	0	0
Intergovernmental	33,261	0	0
Inventory Held for Resale	0	0	0
Materials and Supplies Inventory	29,061	0	0
Prepaid Items	537,543	0	0
<i>Total Assets</i>	<u>\$50,150,917</u>	<u>\$11,007,220</u>	<u>\$2,391,462</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$159,510	\$0	\$109,499
Contracts Payable	0	0	37,631
Accrued Wages	4,804,159	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	1,045,310	0	0
Accrued Interest Payable	0	0	1,858
Notes Payable	0	0	1,000,000
Deferred Revenue	32,711,706	6,498,792	0
<i>Total Liabilities</i>	<u>38,720,685</u>	<u>6,498,792</u>	<u>1,148,988</u>
Fund Balances			
Reserved for Encumbrances	1,348,269	20,853	1,099,538
Reserved for Property Taxes	1,619,414	373,601	0
Reserved for Budget Stabilization	229,687	0	0
Unreserved: Undesignated, Reported in:			
General Fund	8,232,862	0	0
Special Revenue Funds	0	0	0
Debt Service Funds	0	4,113,974	0
Capital Projects Funds	0	0	142,936
<i>Total Fund Balances</i>	<u>11,430,232</u>	<u>4,508,428</u>	<u>1,242,474</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$50,150,917</u>	<u>\$11,007,220</u>	<u>\$2,391,462</u>

See accompanying notes to the basic financial statements

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

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$19,316,707
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$2,069,904	\$23,278,155	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	102,151,140
0	229,687		
528,704	41,732,217	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
3,433	241,516	Delinquent Property Taxes	792,769
0	70,200	Grants	154,428
591,288	624,549		
33,221	33,221	Total	947,197
4,112	33,173		
25,427	562,970	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(1,072,412)
\$3,256,089	\$66,805,688		
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental fund, an interest expenditure is reported when due.	(408,092)
\$75,870	\$344,879		
0	37,631	Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
252,734	5,056,893	General Obligation Bonds	(80,145,000)
70,200	70,200	Capital Appreciation Bonds	(10,082,679)
58,048	1,103,358	Compensated Absences	(7,050,095)
0	1,858		
0	1,000,000	Total	(97,277,774)
663,664	39,874,162		
1,120,516	47,488,981	<i>Net Assets of Governmental Activities</i>	\$23,656,766
298,007	2,766,667		
19,468	2,012,483		
0	229,687		
0	8,232,862		
1,701,323	1,701,323		
0	4,113,974		
116,775	259,711		
2,135,573	19,316,707		
\$3,256,089	\$66,805,688		

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

	General	Bond Retirement	Building
Revenues			
Property Taxes	\$33,953,726	\$6,795,905	\$0
Intergovernmental	21,127,157	851,700	0
Interest	255,876	162	14,140
Tuition and Fees	332,381	0	0
Charges for Services	29,735	0	0
Extracurricular Activities	0	0	0
Rentals	56,265	0	0
Contributions and Donations	0	0	0
Miscellaneous	141,116	0	0
<i>Total Revenues</i>	<u>55,896,256</u>	<u>7,647,767</u>	<u>14,140</u>
Expenditures			
Current:			
Instruction:			
Regular	30,119,632	0	0
Special	6,412,163	0	0
Vocational	596,642	0	0
Support Services:			
Pupils	3,009,650	0	0
Instructional Staff	3,109,305	0	0
Board of Education	100,340	0	0
Administration	4,174,112	0	0
Fiscal	1,332,127	129,844	0
Business	700,759	0	0
Operation and Maintenance of Plant	7,190,117	0	0
Pupil Transportation	2,657,740	0	0
Central	330,245	0	0
Operation of Non-Instructional Services	0	0	0
Food Service Operations	0	0	0
Extracurricular Activities	1,134,250	0	0
Capital Outlay	410,426	0	2,668,354
Debt Service:			
Principal Retirement	0	2,479,867	0
Interest and Fiscal Charges	0	4,486,229	1,858
<i>Total Expenditures</i>	<u>61,277,508</u>	<u>7,095,940</u>	<u>2,670,212</u>
<i>Net Change in Fund Balances</i>	(5,381,252)	551,827	(2,656,072)
<i>Fund Balances Beginning of Year</i>	<u>16,811,484</u>	<u>3,956,601</u>	<u>3,898,546</u>
<i>Fund Balances End of Year</i>	<u>\$11,430,232</u>	<u>\$4,508,428</u>	<u>\$1,242,474</u>

See accompanying notes to the basic financial statements

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

Other Governmental Funds	Total Governmental Funds
\$521,346	\$41,270,977
3,052,451	25,031,308
7,313	277,491
387,244	719,625
1,388,649	1,418,384
648,650	648,650
0	56,265
97,329	97,329
148,621	289,737
<u>6,251,603</u>	<u>69,809,766</u>
611,256	30,730,888
697,996	7,110,159
111,435	708,077
492,740	3,502,390
538,709	3,648,014
0	100,340
555,087	4,729,199
0	1,461,971
11,395	712,154
0	7,190,117
595	2,658,335
79,283	409,528
585,285	585,285
1,346,962	1,346,962
291,896	1,426,146
1,301,758	4,380,538
0	2,479,867
0	4,488,087
<u>6,624,397</u>	<u>77,668,057</u>
(372,794)	(7,858,291)
<u>2,508,367</u>	<u>27,174,998</u>
<u>\$2,135,573</u>	<u>\$19,316,707</u>

Net Change in Fund Balances - Total Governmental Funds (\$7,858,291)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	5,916,417	
Current Year Depreciation	<u>(1,472,578)</u>	
Total		4,443,839

Governmental funds only report the disposal of fixed assets

to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (53,259)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	(143,614)	
Intergovernmental	<u>93,924</u>	
Total		(49,690)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,130,307

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.

Accrued Interest on Bonds	2,669	
Bond Accretion	<u>(711,628)</u>	
Total		(708,959)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(1,088,827)	
Pension Obligation	<u>(469,999)</u>	
Total		<u>(1,558,826)</u>

Change in Net Assets of Governmental Activities (\$2,654,879)

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$34,345,654	\$34,059,310	\$34,059,310	\$0
Intergovernmental	19,908,866	21,163,638	21,163,638	0
Interest	300,000	238,336	255,876	17,540
Tuition and Fees	216,819	331,047	331,047	0
Charges for Services	19,126	29,735	29,735	0
Rentals	540,000	56,408	56,408	0
Miscellaneous	105,727	147,280	147,280	0
<i>Total Revenues</i>	55,436,192	56,025,754	56,043,294	17,540
Expenditures				
Current:				
Instruction:				
Regular	31,231,877	30,223,737	30,223,737	0
Special	6,531,646	6,437,620	6,437,620	0
Vocational	506,593	586,739	586,739	0
Support Services:				
Pupils	3,214,917	3,077,540	3,077,540	0
Instructional Staff	3,399,674	3,136,511	3,136,511	0
Board of Education	122,500	97,894	97,894	0
Administration	4,237,827	4,313,353	4,313,353	0
Fiscal	1,389,456	1,363,334	1,363,334	0
Business	855,356	756,480	756,480	0
Operation and Maintenance of Plant	8,267,451	7,824,521	7,824,521	0
Pupil Transportation	3,020,045	3,015,217	3,015,217	0
Central	392,199	348,277	348,277	0
Extracurricular Activities	1,222,638	1,157,629	1,157,629	0
Capital Outlay	487,791	472,690	472,690	0
<i>Total Expenditures</i>	64,879,970	62,811,542	62,811,542	0
<i>Excess of Revenues Under Expenditures</i>	(9,443,778)	(6,785,788)	(6,768,248)	17,540
Other Financing Sources (Uses)				
Advances In	179,000	21,076	21,076	0
Advances Out	(44,027)	(70,200)	(70,200)	0
<i>Total Other Financing Sources (Uses)</i>	134,973	(49,124)	(49,124)	0
<i>Net Change in Fund Balance</i>	(9,308,805)	(6,834,912)	(6,817,372)	17,540
<i>Fund Balance Beginning of Year</i>	17,646,678	17,646,678	17,646,678	0
Prior Year Encumbrances Appropriated	2,833,128	2,833,128	2,833,128	0
<i>Fund Balance End of Year</i>	\$11,171,001	\$13,644,894	\$13,662,434	\$17,540

See accompanying notes to the basic financial statements

Medina City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Funds	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$511,537	\$146,932
Liabilities		
Due to Students	0	\$146,932
Net Assets		
Held in Trust for Scholarship	\$511,537	

See accompanying notes to the basic financial statements

Medina City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$93,285
Contributions and Donations	12,500
Miscellaneous	<u>3,300</u>
<i>Total Additions</i>	109,085
Deductions	
Scholarships Awarded	<u>29,350</u>
<i>Change in Net Assets</i>	79,735
<i>Net Assets Beginning of Year</i>	<u>431,802</u>
<i>Net Assets End of Year</i>	<u><u>\$511,537</u></u>

See accompanying notes to the basic financial statements

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

Note 1 - Description of the School District and Report Entity

Medina City School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five member Board form of government elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District is located in Medina County and encompasses the entire City of Medina and portions of surrounding townships. The School District currently operates six elementary schools, two middle schools and one comprehensive high school, all which are staffed by 46 administrators, 490 certificated full-time teaching personnel, and 278 classified employees who provide services to 7,323 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements 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. For the Medina City School District, this includes general operations, food service, preschool, and student related activities of the School District.

Non-public Schools - Within the School District boundaries, The Nurtury, St. Francis Xavier, Kids Country, and the Medina Christian Academy are operated as non-public schools. Current State legislation provides funding to these schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District, as directed by the non-public schools. These transactions are reported as governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance 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. The School District does not have any component units.

The School District participates in two jointly governed organizations and an insurance purchasing pool. These organizations are the Medina County Career Center, Ohio Schools Council Association, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Program. These organizations are presented in Notes 16 and 17 to the basic financial statements.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 governmental activity is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

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

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

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

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

Bond Retirement Fund The bond retirement fund is used to account for the accumulation of property tax revenues for the payment of general obligation bonds issued for high school and elementary school additions and the construction of a new recreation center.

Building Fund The building fund accounts for bond proceeds and interest revenue to be used for the construction of the new recreation center and high school.

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

Fiduciary Funds Types Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has two private purpose trust funds which are both used to account for college scholarships. The School District's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The agency funds reflect resources that belong to the student bodies of the various schools.

C. Measurement Focus

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

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

The private purpose trust funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

Revenues - Exchange and Nonexchange 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.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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 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. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds are maintained in this pool. Individual fund integrity is maintained through the School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2004, investments were limited to repurchase agreements, mutual funds and STAROhio. Repurchase agreements are reported at cost; mutual funds are reported at fair value based on current share price.

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during the fiscal year 2004 amounted to \$255,876, which included \$77,112 assigned from other School District funds.

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 reported as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

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

G. Prepaid Items

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

H. 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 by enabling legislation. Restricted assets in the general fund represent amounts required by State statute to be set aside to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

I. Capital Assets

All capital assets of the School District are classified as general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of seven thousand dollars. 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.

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:

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	40 Years
Buildings and Improvements	40 Years
Furniture and Equipment	5 Years
Vehicles	10 Years

J. Interfund Balances

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

K. 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 employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for all 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 method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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. Net assets restricted for other purposes include student activities.

O. 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.

P. 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.

Q. Interfund Activity

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

R. Budgetary Data

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

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

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

Note 3 – Changes in Accounting Principle and Restatement of Net Assets

A. Changes in Accounting Principle

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

B. Restatement of Net Assets

Capital assets were overstated \$7,500,000 at June 30, 2003. Net assets have been restated from \$35,901,424 to \$26,311,645 at June 30, 2003.

Note 4 - Fund Deficits

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

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
Entry Year Programs	\$297
Miscellaneous State Grants	275
Immigrant Student Grant	37
EHA Preschool	341

The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

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, disbursement and encumbrances.

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The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, 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 that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$5,381,252)
Net Adjustment for Revenue Accruals	147,038
Advances In	21,076
Net Adjustment for Expenditure Accruals	(52,348)
Advances Out	(70,200)
Adjustment for Encumbrances	<u>(1,481,686)</u>
Budget Basis	<u><u>(\$6,817,372)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

Interim monies may be 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;

Medina City School District
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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; and,
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in the amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Cash on Hand At fiscal year end, the School District had \$5,000 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$1,542,140 and the bank balance was \$1,926,409. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$1,826,409 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and 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 FDIC.

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

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$950,000	\$950,000	\$950,000
Scudder Mutual Fund		205,818	205,818
T. Rowe Price Mutual Fund		259,815	259,815
STAROhio		21,203,538	21,203,538
Totals	<u>\$950,000</u>	<u>\$22,619,171</u>	<u>\$22,619,171</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$24,166,311	\$0
Repurchase Agreements	(950,000)	950,000
Scudder Mutual Fund	(205,818)	205,818
T. Rowe Price Mutual Fund	(259,815)	259,815
STAROhio	(21,203,538)	21,203,538
Cash on Hand	(5,000)	0
GASB Statement No. 3	<u>\$1,542,140</u>	<u>\$22,619,171</u>

Note 7 - 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 (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December

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31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

The amount available as an advance at June 30, 2004, was \$1,619,414 in the general fund, \$373,601 in the bond retirement debt service fund and \$19,468 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$1,724,998, in the general fund, \$397,660 in the bond retirement debt service fund and \$20,837 in 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 has been deferred.

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$883,236,840	88.62%	\$913,541,630	88.42%
Public Utility	23,228,930	2.33	23,753,500	2.30
Tangible Personal Property	90,154,190	9.05	95,844,259	9.28
	<u>\$996,619,960</u>	<u>100.00%</u>	<u>\$1,033,139,389</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$87.13		\$87.13	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

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A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Tuition	\$33,261
Lunch Reimbursement	49,412
Other Grants	2,486
Summer School Subsidy	13,575
Alternative Schools	12,956
Title VI-B	140,181
Limited English Proficiency	959
Title I	161,213
Title VI	29,784
Drug Free Grant	3,458
EHA Preschool	4,090
Reducing Class Size	96,440
Miscellaneous Federal Grants	36,508
Rotary	40,226
	<u>40,226</u>
Total	<u><u>\$624,549</u></u>

Note 9 - Capital Assets

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

	Restated Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$3,016,769	\$0	\$0	\$3,016,769
Construction in Progress	68,475,965	4,848,212	73,324,177	0
<i>Total Capital Assets, not being depreciated</i>	<u>71,492,734</u>	<u>4,848,212</u>	<u>73,324,177</u>	<u>3,016,769</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,631,990	527,784	0	2,159,774
Buildings and Improvements	36,039,763	73,324,177	0	109,363,940
Furniture and Equipment	599,796	467,809	0	1,067,605
Vehicles	4,067,867	72,612	77,000	4,063,479
<i>Total Capital Assets, being depreciated</i>	<u>42,339,416</u>	<u>74,392,382</u>	<u>77,000</u>	<u>116,654,798</u>
Less Accumulated Depreciation:				
Land Improvements	(538,276)	(40,800)	0	(579,076)
Buildings and Improvements	(13,539,449)	(990,128)	0	(14,529,577)
Furniture and Equipment	(394,414)	(80,291)	0	(474,705)
Vehicles	(1,599,451)	(361,359)	(23,741)	(1,937,069)
Total Accumulated Depreciation	<u>(16,071,590)</u>	<u>(1,472,578) *</u>	<u>(23,741)</u>	<u>(17,520,427)</u>
Total Capital Assets, being depreciated, net	<u>26,267,826</u>	<u>72,919,804</u>	<u>53,259</u>	<u>99,134,371</u>
Governmental Activities Capital Assets, Net	<u><u>\$97,760,560</u></u>	<u><u>\$77,768,016</u></u>	<u><u>\$73,377,436</u></u>	<u><u>\$102,151,140</u></u>

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* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$568,220
Special	125,036
Vocational	5,893
Support Services:	
Pupils	43,834
Instructional Staff	136,227
Administration	59,655
Operation and Maintenance of Plant	135,092
Pupil Transportation	327,126
Central	1,395
Non-Instructional Services	44,451
Extracurricular Activities	25,649
Total Depreciation Expense	\$1,472,578

Note 10 - Risk Management

A. Workers' Compensation

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefits 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 school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

B. Property and Liability

The School District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the School District contracted with several companies for various types of insurance as follows:

Company	Type of Coverage	Coverage Amount
Harcum-Schuetz Insurance Agency	Education Liability	\$3,000,000
Indiana Insurance Company	Fleet Insurance	2,000,000
Indiana Insurance Company		
Hartford Insurance Company	Excess	2,000,000
Indiana Insurance Company	Property	192,127,940
Ohio Casualty Insurance Company	Crime	250,000
Travelers Insurance Company	Boiler and Machinery	30,000,000

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Settled claims have not exceeded this commercial coverage in any of the last three years and there have been no significant reductions in insurance coverage from last year.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (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 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and 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, 2004, 2003 and 2002 were \$801,713, \$691,371 and \$412,981, respectively; respectively; 56 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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.

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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.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 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 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$4,042,799, \$3,860,672 and \$2,592,309, respectively; 86.2 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$29,092 made by the School District and \$56,820 made by the plan members.

Note 12 - Post Employment 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 dependants 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.

Retirees who participated in the DB or Combined Plans and their 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. All 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 fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$310,985 for fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year-end June 30, 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference

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between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay was established as \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$764,930.

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

Note 13 - Other Employee Benefits

A. Compensated Absences

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

Teachers and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 295 days. Upon retirement, certified and classified employees with at least five years of experience with the School District, receive payment for up to a maximum payment of eighty days computed according to negotiated agreements.

Administrators earn sick leave at the rate of one and one-fourth days per month. Administrative employees receive one hundred percent of sick leave days accumulated for the first forty days and fifty percent of sick leave days accumulated from the next eighty days up to a maximum payment of eighty days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Employees may earn up to a maximum of four days of personal leave per year. Personal leave may not be accumulated. Unused personal leave becomes sick leave at July 1.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through commercial life insurance companies.

The School District has contracted with QualChoice, a medical care program sponsored by University Hospital of Cleveland, to provide employee medical/surgical and prescription benefits. Dental insurance is provided by Medical Mutual. The School Board pays the premium cost of insurance coverage for all employees. The employee pays a co-pay for office visits and prescriptions.

Note 14 - Operating Leases

The School District is obligated under certain leases accounted for as operating leases. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2004.

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Fiscal Year Ending June 30,	Amounts
2005	\$198,107
2006	167,729
2007	151,401
Total Minimum Payments	\$517,237

Note 15 - Long-Term Obligations

The issue date, interest rate, original issue amount and date of maturity of each of the School District's bonds follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
Various School Improvements - 1992 Refunding - 1998	3.7 - 10.50%	\$3,674,245	December 1, 2008
Various School Improvements - 1999	3.6 - 15.70%	11,009,701	December 1, 2018
	4.05%	79,704,923	December 1, 2028

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

	Principal Outstanding 6/30/03	Additions	Reductions	Principal Outstanding 6/30/04	Amount Due in One Year
<i>General Obligation Bonds:</i>					
1992 Various School Improvements \$3,674,245 5.5%-6.45%					
Capital Appreciation Bonds	\$2,150,050	\$0	(\$424,867)	\$1,725,183	\$398,112
Accretion on Capital Appreciation Bonds	2,151,216	250,580	(650,440)	1,751,356	426,888
1998 Refunding Bonds					
\$9,960,000 4.5%-5.0% Serial Bonds	9,645,000	0	(165,000)	9,480,000	175,000
\$464,701 4.90%					
Capital Appreciation Bonds	464,701	0	0	464,701	0
Accretion on Capital Appreciation Bonds	1,533,478	167,936	0	1,701,414	0
1999 Various School Improvements					
\$75,595,000 4.65% Serial Bonds	72,555,000	0	(1,890,000)	70,665,000	2,165,000
\$2,054,923 4.83-4.93%					
Capital Appreciation Bonds	2,054,923	0	0	2,054,923	0
Accretion on Capital Appreciation Bonds	2,091,990	293,112	0	2,385,102	0
<i>Total General Obligation Bonds</i>	92,646,358	711,628	(3,130,307)	90,227,679	3,165,000
Compensated Absences	5,961,268	1,495,232	(406,405)	7,050,095	631,461
Total Governmental Activities Long-Term Liabilities	\$98,607,626	\$2,206,860	(\$3,536,712)	\$97,277,774	\$3,796,461

In 1999, the School District issued bonds for renovations and construction of various school buildings. In 1998, the School District issued bonds for the advance refunding of school improvements bonds. In 1992, the School District issued bonds for the renovation of various school buildings.

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

The 1992, 1998 and 1999 general obligation bonds include serial bonds and capital appreciation bonds. For the 1992 bonds, the additions were \$250,580 which represents the annual accretion of discounted interest. The final amount of the 1992 bonds will be \$8,250,000. For the 1998 bonds, the additions were \$167,936 which represents the annual accretion of discounted interest. The final amount of the 1998 capital appreciation bonds will be \$3,135,000. For the 1999 bonds, the additions were \$293,112 which represents the annual accretion of discounted interest. The final amount of the 1999 capital appreciation bonds will be \$5,765,000.

All general obligation bonds will be paid from property taxes. The compensated absences liability will be paid from the general fund and the food service special revenue fund.

In a prior year, the School District defeased the 1998 series general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2004, \$11,010,000 of bonds outstanding are considered defeased.

The School District's overall debt margin was \$13,101,176 with an unvoted debt margin of \$1,033,139 at June 30, 2004. Principal and interest requirements to retire general obligation bonds and capital appreciation bonds outstanding at June 30, 2004, are as follows:

	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2005	\$2,340,000	\$3,566,586	\$398,112	\$426,888
2006	2,640,000	4,595,409	370,293	454,707
2007	190,000	1,030,454	1,400,574	2,199,416
2008	200,000	919,295	1,316,592	2,498,409
2009	3,420,000	4,039,790	294,525	530,475
2010-2014	15,850,000	15,904,423	464,711	2,670,299
2015-2019	18,835,000	12,714,014	0	0
2020-2024	16,005,000	7,924,513	0	0
2025-2028	20,665,000	3,139,104	0	0
Total	\$80,145,000	\$53,833,588	\$4,244,807	\$8,780,194

Note 16 - Jointly Governed Organizations

A. Medina County Career Center

The Medina County Career Center is a Joint Vocational School District which is a jointly governed organization among Medina County schools. It is operated under the direction of a Board, consisting of one representative from each participating School District's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Medina County Career Center is not part of the School District and its operations are not included as part of the reporting entity. During fiscal year 2003, \$25,953 was paid by the Medina City School District for their portion of the GRADS program for pregnant girls in the County. Financial information can be obtained by contacting the Treasurer, John Streett, at the Medina County Career Center, 1101 West Liberty Street, Medina, Ohio 44256.

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

B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among 83 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. In fiscal year 2004, the School District paid \$2,046 to the Council. Financial information can be obtained by contacting David A. Cottrell, 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 and the natural gas program which was implemented during fiscal year 2001.

The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts 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 repurchase 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, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The natural gas program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each November these estimates are compared to their actual usage for the year and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation 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 district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Note 17 - Insurance Purchasing Pool

The School District participates in the Ohio Association of School Business Officials (OASBO) Group Rating Workers' Compensation Plan (GRP) which was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a five member Board of Directors. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require 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 disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The Medina City School District is a party to legal proceedings. The School Board is of opinion that the ultimate disposition of the current proceeding will not have a material effect, if any, on the financial condition of the School District.

Note 19 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal 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. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside, with the remainder reverting to the General Fund.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Reserve
Set-aside Reserve Balances as of June 30, 2003	(\$5,654,832)	\$0	\$229,687
Current Year Set-aside Requirement	966,736	966,736	0
Qualifying Disbursements	(1,895,956)	(8,573,710)	0
Totals	<u>(\$6,584,052)</u>	<u>(\$7,606,974)</u>	<u>\$229,687</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$6,584,052)</u>	<u>\$0</u>	<u>\$229,687</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$229,687</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, 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.

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

Note 20 - 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

Note 21 - Interfund Balances

As of June 30, 2004, the general fund had an \$70,200 interfund receivable and the nonmajor funds had a corresponding \$70,200 interfund payable. The interfund receivable and payable are due to the timing of the receipt of grant monies by the nonmajor funds.

Note 22 – Notes Payable

A summary of the note transactions for the year ended June 30, 2004, follows:

	Outstanding 6/30/2003	Issued	Retired	Outstanding 6/30/2004
Governmental Activities:				
2% Transportation Facilities Notes	\$0	\$1,000,000	\$0	\$1,000,000
Total	\$0	\$1,000,000	\$0	\$1,000,000

On May 27, 2004, the School District issued \$1,000,000 in Transportation Facilities Notes to purchase land and renovate and reconstruct the former truck facility for the storage, repair and maintenance of motor vehicles.

All of the notes are bond anticipation notes; they are backed by the full faith and credit of the School District, and mature on May 26, 2005. The note liability is reflected in the fund which received the proceeds.

Note 23 - Recreation Center Joint Operating Agreement

On July 9, 2002 the School District entered into a joint operating agreement and lease agreement with the City of Medina for the Medina Recreation Center (the Recreation Center).

Under the terms of these agreements, the Recreation Center will be owned by the School District and the City will be granted a leasehold interest in the Recreation Center for a term commencing on the date the facilities are opened for public use and expiring on June 30, 2052, with an option to renew for an indefinite number of additional five year terms. The lease requires the City to prepay rent in the amount of \$7,500,000, which is due in installments as various phases of construction of the facility are completed. As of June 30, 2004, the City has paid the full amount to the School District.

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

In addition to the initial rent payment, the City will also be required to pay annual rent of \$1 each year, and 47.5 percent of the Recreation Center's operating expenses which will be initially paid by the School District and invoiced to the City on a monthly basis. The City and the School District will also each be required to contribute \$100,000 a year, for the term of the lease, to separate capital improvement funds which may be spent for upkeep of the facilities through mutual agreement of both parties upon the recommendation of an Advisory Committee. However, no contributions to the capital improvement funds are required, by either party, for the first two years of operations, and contributions of only 30 percent, 60 percent and 90 percent are required for the third, fourth and fifth years, respectively.

The Recreation Center's Advisory Committee will consist of six members, in which two each will be appointed by the School District and City and four by election. The Advisory Committee members may serve for an unlimited number of three year terms, and will be responsible for advising the City and School District regarding scheduling, operating expenses and day-to-day operations of the Recreation Center, as well as, use of the Capital Improvement Funds.

The Recreation Center will be accounted for as an undivided interest for the School District. The School District and the City will report 50 percent of the completed building and their respective shares of the operating costs.

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**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	044388	10.550	\$220,365		\$218,783	
National School Lunch Program	044388	10.555		\$122,062		\$156,786
Total U.S. Department of Agriculture - Nutrition Cluster			220,365	122,062	218,783	156,786
U.S. DEPARTMENT OF EDUCATION						
<i>Direct Assistance Program:</i>						
Fund for the Improvement of Education	00-044388	84.215	123,820		123,820	
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044388 C1-S1-2003	84.010	53,845		76,768	
	044388 C1-S1-2004		363,844		341,025	
Total Title I Grants to Educational Agencies			417,689		417,793	
Special Education Cluster:						
Special Education Grants to States	044388 6B-SF 2003	84.027	111,427		100,992	
	044388 6B-SF 2004		794,317		797,105	
Total Special Education Grants to States			905,744		898,097	
Special Education Preschool Grants	044388 PG-S1-2003	84.173	4,794		4,805	
	404388 PG-S1-2004		29,939		29,075	
Total Special Education Preschool Grants			34,733		33,880	
Total Special Education Cluster			940,477		931,977	
English Language Acquisition Grants	044388 T3-S2-2004	84.365	3,985		4,429	
Innovative Education Program Strategies	044388 C2-S1-2003	84.298	6,554		12,106	
	044388 C2-S1-2004		42,151		43,101	
Total Innovative Education Program Strategies			48,705		55,207	
Safe and Drug Free Schools and Communities State Grants	044388 DR-S1-2003	84.186	(636)		63	
	044388 DR-S1 2004		22,918		24,092	
Total Safe and Drug Free Schools and Communities State Grants			22,282		24,155	
Education Technology State Grants	044388 TJ-S1-2003	84.318	1,825		198	
	044388 TJ-S1-2004		9,866		11,603	
Total Education Technology State Grants			11,691		11,801	
Class Size Reduction	044388 CR-S1-02	84.340				
Improving Teacher Quality State Grants	044388 TR-S1-2003	84.367	31,059		37,068	
	044388 TR-S1-2004		130,755		124,852	
Total Improving Teacher Quality State Grants			161,814		161,920	
Safe And Drug-Free Schools And Communities National Programs	044388 T4-S1-2003	84.184C	2,948			
	044388 T4-S1-2004		8,852		8,852	
Total Safe And Drug-Free Schools And Communities National Programs			11,800		8,852	
Total U.S. Department of Education <i>Passed through the Ohio Department of Education:</i>			1,618,443		1,616,134	
Total U.S. Department of Education			1,742,263		1,739,954	
Total			\$1,962,628	\$122,062	\$1,958,737	\$156,786

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

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

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

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- CHILD NUTRITION CLUSTER

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

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

NOTE C -- MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Medina City School District, Medina County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 18, 2005, in which we noted the District restated its net assets due to an overstatement of 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 18, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the District in a separate letter dated February 18, 2005.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

February 18, 2005



Auditor of State Betty Montgomery

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

Medina City School District
Medina County
120 West Washington Street
Medina, Ohio 44256

To the Board of Education:

Compliance

We have audited the compliance of Medina City School District, Medina 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, 2004. 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

February 18, 2005

**MEDINA CITY SCHOOL DISTRICT
MEDINA COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA #84.027 (Special Education Grants to States) and CFDA #84.173 (Special Education - Preschool Grants) CFDA #84.215 K Fund for the Improvement of Education
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

**MEDINA CITY SCHOOL DISTRICT
MEDINA 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
MARCH 22, 2005**