

Minerva Local School District

Audited Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Minerva Local School District

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

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

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

BETTY MONTGOMERY
Auditor of State

March 28, 2005

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**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2004

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**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2004

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The logo for Rea & Associates, Inc. features a teal-colored graphic on the left consisting of a square and a curved shape. To the right, the company name "Rea & Associates, Inc." is written in a large, black, serif font. Below the name, the words "ACCOUNTANTS AND BUSINESS CONSULTANTS" are written in a smaller, black, all-caps serif font, separated by a thin horizontal line.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 3, 2005

To the Board of Education
Minerva Local School District
Minerva, OH 44657

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Minerva Local School District (the "District"), Stark County, Ohio 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 opinion.

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 Minerva Local School District, Stark County, Ohio as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated February 3, 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 the 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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Minerva Local School District
Independent Accountants' Report
February 3, 2005
Page 2

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as 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 this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

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

The discussion and analysis of the Minerva Local 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 performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$15,280,913 in revenue or 85% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,751,043 or 15% of total revenues of \$18,031,956.
- Total program expenses were \$17,177,941.
- In total, net assets increased \$854,015, which represents a 109% increase from 2003.
- Outstanding bond and note debt decreased from \$14,027,595 to \$13,895,421 through principal payments.

Using this Annual Report

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

A question typically asked about the School District's finances "How did we do financially during fiscal year 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. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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 property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for 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 and the classroom facilities fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and classroom facilities capital projects fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The school district adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 11.

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

Fiduciary Funds – The School District’s only fiduciary fund is for Student Managed Activities. The School District’s fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District’s other financial statements because the assets can’t be used by the School District to finance operations.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 15,070,435	\$ 20,158,483
Capital Assets	10,591,412	4,062,780
Total Assets	25,661,847	24,221,263
Liabilities		
Long-Term Liabilities	15,201,416	15,562,724
Other Liabilities	8,823,295	7,875,418
Total Liabilities	24,024,711	23,438,142
Net Assets		
Invested in Capital		
Assets Net of Debt	2,722,771	2,517,690
Restricted	1,332,243	13,720,901
Unrestricted (Deficit)	(2,417,878)	(15,455,470)
Total Net Assets	\$ 1,637,136	\$ 783,121

Total assets increased by \$1.4 million. An increase of approximately \$6.5 million in total capital assets reflects additional purchases exceeding depreciation. Other assets decreased by \$5.1 million. This was due to investments that were used to retire bond anticipation notes. Total liabilities increased by \$587,000. This increase was the result of additional contracts payable.

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

Table 2 shows the changes in net assets for fiscal year 2004. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental and Business-Type Activities

	Governmental Activities	Governmental Activities
	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,207,249	\$ 1,041,083
Operating Grants	1,543,794	1,088,388
<i>General Revenue:</i>		
Property Taxes	6,002,711	6,530,427
Grants and Entitlements	8,856,397	8,600,092
Other	421,805	467,315
<i>Total Revenues</i>	18,031,956	17,727,305
Program Expenses		
Instruction	9,604,063	10,167,926
Support Services	5,494,777	5,479,133
Operation of Non-Instructional	735,131	640,431
Extracurricular Activities	579,030	502,739
Interest and Fiscal Charges	764,940	686,477
<i>Total Expenses</i>	17,177,941	17,476,706
Increase (Decrease) in Net Assets	\$ 854,015	\$ 250,599

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

Governmental Activities

Information about the School District's major funds starts on page 14.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. General revenues, including tax revenue, investment earnings, and unrestricted state entitlements, support the net cost of program services.

(Table 3)
Governmental Activities

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 9,604,063	\$ 8,238,046	\$ 10,167,926	\$ 8,914,189
Support Services:				
Pupil and Instructional Staff	1,920,482	1,593,444	1,711,707	1,611,901
Board of Education, Administration, Fiscal and Business	1,784,348	1,669,121	1,809,602	1,781,361
Operation and Maintenance of Plant	871,000	818,853	1,054,614	1,052,454
Pupil Transportation	893,207	850,262	744,567	740,310
Central	25,740	18,403	158,643	158,590
Operation of Non-Instructional	735,131	113,247	640,431	71,683
Extracurricular Activities	579,030	360,582	502,739	330,270
Interest and Fiscal Charges	764,940	764,940	686,477	686,477
Total Expenses	<u>\$ 17,177,941</u>	<u>\$ 14,426,898</u>	<u>\$ 17,476,706</u>	<u>\$ 15,347,235</u>

Instruction and student support services comprise 77% of governmental program expenses. Interest/fiscal charges were 4%. Interest expense was attributable to the outstanding bonds and lease payments. Pupil transportation and the operation/maintenance of facilities accounts for 10% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Minerva Local School District.

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

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 budgeted fund is the general fund.

During the course of fiscal year 2004, the School District amended its general fund budget one time. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$15.0 million, over the original budget estimates of \$14.9 million. Of this \$174,742 increase, most was attributable to an accounting presentation for the open enrollment students.

Final appropriations of \$15.0 million were \$263,700 higher than the \$14.7 million in the original budget. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated. A number of aide positions were added during the year to assist with students with special needs. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$10.6 million invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 129,659	\$ 32,903
Buildings and Improvements	2,153,760	2,288,351
Furniture and Equipment	154,838	151,689
Vehicles	404,845	387,276
Construction in Progress	<u>7,748,310</u>	<u>1,202,561</u>
Totals	<u>\$ 10,591,412</u>	<u>\$ 4,062,780</u>

The \$6,559,197 increase in capital assets was attributable to additional purchases exceeding depreciation.

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

A change in Ohio law required school districts to set aside 3% of certain revenues for capital acquisitions and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$298,793 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital acquisition. For the textbooks, the School District disbursed \$229,029, with the remainder scheduled to be carried forward into the 2005 fiscal year.

Debt

At June 30, 2004, the School District had \$13,820,329 in bonds and notes outstanding with \$229,196 due within one year. During fiscal year 2004, \$207,266 of general obligation bonds and notes were retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
Energy Notes	\$ 120,331	\$ 152,597
General Obligation Bonds:		
Various Series Bonds	13,405,000	13,580,000
Various Capital Appreciation Bonds	294,998	294,998
Accretion on Capital Appreciation Bonds	<u>75,092</u>	<u>0</u>
Total General Obligation Bonds	<u>13,775,090</u>	<u>13,874,998</u>
Totals	<u>\$ 13,895,421</u>	<u>\$ 14,027,595</u>

In 1999, the School District passed a bond issue providing \$14,025,000 to construct a new middle school and renovate the high school in the School District.

Current Issues

The Minerva Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. While the Minerva Local School District continues to show academic improvement, our financial situation has deteriorated. Actions taken by the state legislature are having a negative impact on the financial stability of the district.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 33% of revenues for governmental activities for the Minerva Local School District in fiscal year 2004.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses while still striving to continue academic success. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. Beginning in fiscal year 2002 the State provided for a new form of funding called parity aid. Parity aid is available to low wealth districts that meet certain conditions. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Minerva Local School District is anticipating only very limited growth in state revenue through continued receipt of parity aid. The district is experiencing reduced basic state aid because of the effects of static enrollment and reappraisals of property values. The current state funding formula results in less state funding as the result of reappraisals. Because of the effect of House Bill 920 as noted above increases in property taxes are very limited as the result of reappraisals. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Michael Pence, Treasurer of Minerva Local School District, 401 North Market St., Minerva, Ohio 44657 or mcp1@minerva.stark.k12.oh.us.

MINERVA LOCAL SCHOOL DISTRICT*Statement of Net Assets**June 30, 2004*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 8,138,359
Cash and Cash Equivalents:	
In Segregated Accounts	2,699
Receivables:	
Taxes	6,277,652
Accounts	156,454
Accrued Interest	4,231
Intergovernmental	205,870
Prepaid Items	154,338
Inventory Held For Resale	18,027
Materials and Supplies	29,299
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	83,506
Nondepreciable Capital Assets	7,877,969
Depreciable Capital Assets (Net)	<u>2,713,443</u>
 <i>Total Assets</i>	 <u>25,661,847</u>
 Liabilities	
Accounts Payable	200,182
Contracts Payable	773,461
Accrued Wages and Benefits	1,454,852
Intergovernmental Payable	407,088
Matured Compensated Absences Payable	180,097
Deferred Revenue	5,681,895
Claims Payable	125,720
Long Term Liabilities:	
Due Within One Year	284,855
Due Within More Than One Year	<u>14,916,561</u>
 <i>Total Liabilities</i>	 <u>24,024,711</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	2,722,771
Restricted for:	
Capital Projects	677,246
Debt Service	598,817
Other Purposes	56,180
Unrestricted	<u>(2,417,878)</u>
 <i>Total Net Assets</i>	 <u>\$ 1,637,136</u>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 7,912,389	\$ 380,496	\$ 559,079	\$ (6,972,814)
Special	1,612,783	47,183	375,857	(1,189,743)
Vocational	74,005	3,213	0	(70,792)
Adult continuing	4,886	189	0	(4,697)
Support services:				
Pupils	968,943	40,158	86,579	(842,206)
Instructional staff	951,539	38,123	162,178	(751,238)
Board of education	66,493	2,835	0	(63,658)
Administration	1,226,784	66,067	12,344	(1,148,373)
Fiscal	428,243	18,005	12,996	(397,242)
Business	62,828	2,980	0	(59,848)
Operation and maintenance of plant	871,000	48,419	3,728	(818,853)
Pupil transportation	893,207	42,945	0	(850,262)
Central	25,740	756	6,581	(18,403)
Operation of non-instructional services	735,131	297,432	324,452	(113,247)
Extracurricular activities	579,030	218,448	0	(360,582)
Debt service:				
Interest and fiscal charges	764,940	0	0	(764,940)
Total Governmental Activities	\$ 17,177,941	\$ 1,207,249	\$ 1,543,794	(14,426,898)
General Revenues				
Property Taxes Levied for:				
General Purposes				5,169,821
Debt Service				832,890
Grants and Entitlements not Restricted to Specific Programs				8,856,397
Investment Earnings				167,075
Miscellaneous				233,827
Gifts and Donations				20,903
Total General Revenues				15,280,913
Change in Net Assets				854,015
Net Assets Beginning of Year				783,121
Net Assets End of Year				\$ 1,637,136

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,253	\$ 7,358,959	\$ 770,189	\$ 8,132,401
Cash and Cash Equivalents:				
Restricted Cash	83,506	0	0	83,506
In Segregated Accounts	0	0	2,699	2,699
Receivables:				
Taxes	5,545,658	0	731,994	6,277,652
Accounts	154,752	0	1,702	156,454
Accrued Interest	0	4,231	0	4,231
Intergovernmental	0	0	205,870	205,870
Prepaid Items	140,556	0	13,782	154,338
Inventory Held For Resale	0	0	18,027	18,027
Materials and Supplies	29,299	0	0	29,299
Advances to Other Funds	5,450	0	0	5,450
<i>Total Assets</i>	<u>\$ 5,962,474</u>	<u>\$ 7,363,190</u>	<u>\$ 1,744,263</u>	<u>\$ 15,069,927</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 63,000	\$ 4,795	\$ 132,387	\$ 200,182
Contracts Payable	0	773,461	0	773,461
Accrued Wages and Benefits	1,354,875	0	99,977	1,454,852
Interfund Payable	185,000	0	0	185,000
Advances from Other Funds	0	0	5,450	5,450
Intergovernmental Payable	258,288	0	18,258	276,546
Matured Compensated Absences Payable	160,314	0	19,783	180,097
Deferred Revenue	5,294,276	0	684,877	5,979,153
<i>Total Liabilities</i>	7,315,753	778,256	960,732	9,054,741
Fund Balances				
Reserved for Encumbrances	42,070	4,369,846	19,201	4,431,117
Reserved for Inventory	29,299	0	18,027	47,326
Reserved for Advances	5,450	0	53,495	58,945
Reserved for Tax Revenue Unavailable for Appropriation	405,281	0	0	405,281
Reserved to Textbook/Instructional Materials	13,400	0	0	13,400
Reserved for Budget	70,106	0	0	70,106
Undesignated, Unreserved Reported in:				
General Fund	(1,918,885)	0	0	(1,918,885)
Special Revenue Funds	0	0	119,458	119,458
Debt Service Fund	0	0	529,350	529,350
Capital Projects Funds	0	2,215,088	44,000	2,259,088
<i>Total Fund Balances</i>	<u>(1,353,279)</u>	<u>6,584,934</u>	<u>783,531</u>	<u>6,015,186</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 5,962,474</u>	<u>\$ 7,363,190</u>	<u>\$ 1,744,263</u>	<u>\$ 15,069,927</u>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances		\$ 6,015,186
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		10,591,412
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 160,277	
Delinquent Property Taxes	<u>136,981</u>	297,258
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		 65,238
 Intergovernmental payables include contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		 (130,542)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(13,895,421)	
Compensated Absences	<u>(1,305,995)</u>	<u>(15,201,416)</u>
 Net Assets of Governmental Activities		 <u>\$ 1,637,136</u>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 5,349,020	\$ 0	\$ 865,231	\$ 6,214,251
Intergovernmental	8,956,774	0	1,489,843	10,446,617
Investment income	30,402	161,539	305	192,246
Tuition and fees	585,531	0	9,518	595,049
Extracurricular activities	0	0	271,096	271,096
Gifts and Donations	6,720	0	14,183	20,903
Rentals	44,419	0	0	44,419
Charges for services	0	0	296,685	296,685
Miscellaneous	79,928	0	0	79,928
<i>Total Revenues</i>	15,052,794	161,539	2,946,861	18,161,194
Expenditures:				
Current:				
Instruction:				
Regular	7,778,061	0	203,831	7,981,892
Special	1,111,063	0	525,523	1,636,586
Vocational	73,126	0	0	73,126
Adult continuing	4,880	0	0	4,880
Support services:				
Pupils	911,473	0	50,259	961,732
Instructional staff	798,092	0	142,449	940,541
Board of education	66,057	574	0	66,631
Administration	1,258,544	0	22,753	1,281,297
Fiscal	406,566	0	19,515	426,081
Business	62,576	0	252	62,828
Operation and maintenance of plant	1,059,285	0	7,797	1,067,082
Pupil transportation	893,321	0	3,337	896,658
Central	22,561	0	8,001	30,562
Operation of non-instructional services	24,141	0	685,901	710,042
Extracurricular activities	335,878	0	223,223	559,101
Capital outlay	16,122	6,477,885	0	6,494,007
Debt service:				
Principal retirement	0	0	207,266	207,266
Interest and fiscal charges	0	7,340	682,508	689,848
<i>Total Expenditures</i>	14,821,746	6,485,799	2,782,615	24,090,160
<i>Excess of Revenues Over (Under) Expenditures</i>	231,048	(6,324,260)	164,246	(5,928,966)
Other Financing Sources (Uses):				
Transfers In	0	0	207,745	207,745
Transfers Out	207,281	0	464	207,745
<i>Total Financing Sources and (Uses)</i>	(207,281)	0	207,281	0
<i>Net Change in Fund Balance</i>	23,767	(6,324,260)	371,527	(5,928,966)
<i>Fund balance (deficit) at beginning of year</i>	(1,373,527)	12,909,194	433,363	11,969,030
<i>(Decrease) in reserve for inventory</i>	(3,519)	0	(21,359)	(24,878)
<i>Fund balance (deficit) at end of year</i>	\$ (1,353,279)	\$ 6,584,934	\$ 783,531	\$ 6,015,186

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (5,928,966)

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 depreciation exceeded capital outlay in the current period.

Fixed Asset Additions	\$ 6,814,513	
Current Year Depreciation	<u>(285,881)</u>	6,528,632

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

Grants	82,302	
Delinquent Property Taxes	<u>(211,540)</u>	(129,238)

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

Bond Principal (net of accretion of \$75,092)		132,174
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Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	229,134	
Pension Obligation	6,823	
Change in Inventory	<u>(24,878)</u>	211,079

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

	<u>40,334</u>
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Change in Net Assets of Governmental Activities

	<u><u>\$ 854,015</u></u>
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The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual*
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 5,299,000	\$ 5,354,736	\$ 5,306,448	\$ (48,288)
Intergovernmental	9,005,328	8,958,140	8,957,874	(266)
Investment Income	35,000	33,289	30,402	(2,887)
Tuition and Fees	505,650	584,369	585,300	931
Rentals	3,900	43,474	44,419	945
Gifts and Donations	1,200	6,720	6,720	0
Miscellaneous	24,250	68,342	79,952	11,610
<i>Total Revenues</i>	14,874,328	15,049,070	15,011,115	(37,955)
Expenditures:				
Current				
Instruction				
Regular	7,811,526	7,835,257	7,834,713	544
Special	1,246,593	1,212,792	1,167,783	45,009
Vocational	71,099	72,903	72,903	0
Adult continuing	5,585	4,898	4,898	0
Pupils	932,748	922,262	922,261	1
Instructional Staff	737,764	781,871	781,871	0
Board of Education	52,119	65,838	65,838	0
Administration	1,262,356	1,250,392	1,250,392	0
Fiscal	366,502	404,397	404,495	(98)
Business	58,990	62,633	62,633	0
Operation and Maintenance of Plant	1,010,312	1,109,559	1,096,421	13,138
Pupil Transportation	803,361	888,808	882,360	6,448
Central	39,597	41,069	41,069	0
Operation of Non-Instructional Services	53,879	27,292	27,292	0
Extracurricular Activities	317,131	337,169	337,169	0
Capital Outlay	0	16,122	16,122	0
<i>Total Expenditures</i>	14,769,562	15,033,262	14,968,220	65,042
Excess of Revenues Over Expenditures	104,766	15,808	42,895	27,087
Other Financing Sources (Uses):				
Transfers In	300,000	520,326	520,326	0
Transfers Out	300,000	424,226	441,299	(17,073)
Other Financing Uses	30,000	0	0	0
Advances In	24,672	22,392	22,392	0
Advances Out	0	131,994	131,994	0
<i>Total Other Financing Sources (Uses)</i>	(5,328)	(13,502)	(30,575)	(17,073)
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	99,438	2,306	12,320	10,014
<i>Fund Balance (Deficit) at Beginning of Year</i>	(29,828)	(29,828)	(29,828)	0
Prior Year Encumbrances Appropriated	49,594	49,594	49,594	0
<i>Fund Balance at End of Year</i>	\$ 119,204	\$ 22,072	\$ 32,086	\$ 10,014

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2004

	Governmental Activities Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,958
Receivables:	
Interfund Receivable	<u>185,000</u>
<i>Total Assets</i>	<u>190,958</u>
Liabilities	
Claims Payable	<u>125,720</u>
<i>Total Liabilities</i>	<u>125,720</u>
Net Assets	
Unrestricted	<u>65,238</u>
<i>Total Net Assets</i>	<u><u>\$ 65,238</u></u>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	\$ 59,125
Other operating revenues	607
	59,732
<i>Total Operating Revenues</i>	<i>59,732</i>
Operating Expenses:	
Claims Expense	18,630
Other	843
	19,473
<i>Total Operating Expenses</i>	<i>19,473</i>
Operating Income	40,259
Non-Operating Revenues:	
Interest	75
	75
<i>Change in Net Assets</i>	<i>40,334</i>
<i>Net Assets Beginning of Year</i>	<i>24,904</i>
<i>Net Assets End of Year</i>	<i>\$ 65,238</i>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

Governmental
Activities -
Internal
Service Fund

Cash Flows From Operating Activities:

Cash Received from Customers \$ 59,732
Cash Paid for Goods and Services (843)

Net Cash Provided By Operating Activities 58,889

Cash Flows From Non-Capital Financing Activities:

Advances from Other Funds 131,994
Advances to Other Funds (185,000)

Net Cash Used For Non-Capital Activities (53,006)

Cash Flows From Investing Activities:

Interest on Investments 75

Net Cash Provided By Investing Activities 75

Net Increase in Cash and Cash Equivalents 5,958

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year \$ 5,958

**Reconciliation of Operating Income to Net Cash
Provided By Operating Activities:**

Operating Income \$ 40,259

Adjustments:

Increase (Decrease) in Liabilities
Claims Payable 18,630

Net Cash Provided By Operating Activities \$ 58,889

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds

June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 62,612
Liabilities	
Accounts Payable	\$ 3,365
Due to Students	59,247
<i>Total Liabilities</i>	<u>\$ 62,612</u>

The accompanying notes are an integral part of the basic financial statements.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Minerva Local School District (School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2003, was 2,200. The School District employs 154 certificated and 94 non-certificated employees.

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the basic 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 School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides 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 has one component unit described in Note 21.

The School District is involved with Stark Portage Area Computer Consortium (SPARCC) and Stark County Joint Vocational School, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 18.

Management believes the basic financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

A. 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.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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. There are three categories of funds: governmental, proprietary, and fiduciary.

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classroom Facilities Capital Projects Fund The classroom facilities capital projects fund accounts for financial resources to be used in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of major capital facilities.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the School District's proprietary fund type:

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program, which provides medical benefits to employees.

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

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.

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.

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

MINERVA LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the 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 fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

E. 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 School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to STAROhio, (the State Treasurer's Investment Pool), Money Market, U.S. Treasury Notes, and FHLMC Mortgage Corp.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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 fiscal year 2004 amounted to \$30,402, which includes \$28,243 assigned from other School District funds.

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

MINERVA LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

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

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material, capital acquisition, and to create a reserve for budget stabilization. See Note 14 for additional information regarding set asides.

I. Capital Assets

General capital assets are those assets that 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 fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

MINERVA LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Governmental Activities Estimated Lives
Land	N/A
Buildings and Improvements	20 - 50 Years
Improvements Other Than Buildings	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 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 columns of the statement of net assets. The School District does not have interfund receivables/payables at the year end.

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting 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 amount of accumulated sick leave that will be paid as a termination benefit.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

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

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

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, property taxes, budget and capital maintenance.

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

O. Operating Revenues and Expenses

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3: FUND DEFICITS

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

	<u>Deficit</u>
General Fund	\$ 1,039,870
Non-Major Funds:	
Drug Free Schools	74
Internal Service	<u>101,132</u>
	<u>\$ 1,141,076</u>

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund 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) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 23,767
Net Adjustment for Revenue Accruals	(41,679)
Advances In	207,392
Advances Out	(131,994)
Net Adjustment for Expenditure Accruals	9,506
Adjustment for Encumbrances	<u>(54,672)</u>
Budget Basis	<u><u>\$ 12,320</u></u>

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

Interim monies are those 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 institutions as security for repayment, by surety company bonds deposited with the School District by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within the institution.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any 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 Treasury Asset Reserve of Ohio (STAROhio).
- 7) Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Deposits

At year-end, the carrying amount of the School District's deposits was \$8,286,773, and the bank balance was \$8,760,581. Of the bank balance, \$116,261 was covered by federal depository insurance. \$8,644,320 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Investments

GASB Statement No. 3, entitled "Deposits with Financial Institutions Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the School District to categorize investments to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or 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 which are held by the counterparty, or by its trust department or agent but not in the School District's name. The State Treasurer's Investment Pool does not require categorization under Governmental Accounting Standards Board Statement No. 3 since they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Value</u>	<u>Fair Value</u>
STAROhio	\$ 403	\$ 403

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash & Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 8,287,176	\$ 0
Investments which are part of cash management pool:		
STAROhio	(403)	403
GASB Statement No. 3	\$ 8,286,773	\$ 403

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6: RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (customer services and student fees), accrued interest 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.

NOTE 7: PROPERTY TAXES

Real property tax is levied each January 1 on the assessed value listed on the prior September 1 for all real property located in the District. Assessed values are established by the County Auditor at 35% of current market value. Reappraisal of all property is required every six years with triennial updates. The last update was completed for the tax year 2002 for Stark County, and 1998 for Carroll and Columbiana Counties.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, State statute permits later payment dates to be established.

The full tax rate applied to real property for tax year 2003 was \$29.40 for Carroll, and \$45.70 for Columbiana and Stark Counties per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$20.00 for Carroll, \$33.50 for Columbiana, and \$28.90 for Stark County per \$1,000 of assessed valuation for both real property classified as residential/agricultural and all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2003 was \$29.40 for Carroll, and \$45.70 for Columbiana and Stark Counties per \$1,000 of assessed value.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 7: PROPERTY TAXES (Continued)

STARK COUNTY:

Real Property - 2003 Valuation

Residential/Agricultural	\$ 73,505,440
Commercial/Industrial	13,267,270
Public Utilities	2,820
Minerals	244,660

Tangible Personal Property - 2004 Valuation

General	13,687,375
Public Utilities	<u>3,548,220</u>

Total Valuation \$ 104,255,785

CARROLL COUNTY:

Real Property - 2003 Valuation

Residential/Agricultural	\$ 194,621,650
Commercial/Industrial	23,855,610
Public Utilities	376,670
Minerals	13,180

Tangible Personal Property - 2004 Valuation

General	9,280,060
Public Utilities	<u>30,208,420</u>

Total Valuation \$ 258,355,590

COLUMBIANA COUNTY:

Real Property - 2003 Valuation

Residential/Agricultural	\$ 33,094,500
Commercial/Industrial and Public Utilities	1,320,820
Minerals	325,750

Tangible Personal Property - 2004 Valuation

General	1,612,600
Public Utilities	<u>3,899,850</u>

Total Valuation \$ 40,253,520

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7: PROPERTY TAXES (Continued)

The respective County Treasurers collect property tax on behalf of all taxing districts within the county. The respective County Auditors periodically remit to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 of \$458,776 is recognized as revenue.

NOTE 8: CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 32,903	\$ 96,756	\$ 0	\$ 129,659
Construction In Progress	1,202,561	6,545,749	0	7,748,310
Total Capital Assets, not being depreciated	1,235,464	6,642,505	0	7,877,969
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,085,979	16,123	0	6,102,102
Furniture and Equipment	518,436	43,685	0	562,121
Vehicles	1,119,635	112,200	(63,996)	1,167,839
Total Capital Assets, being depreciated	7,724,050	172,008	(63,996)	7,832,062
Less Accumulated Depreciation:				
Buildings and Improvements	(3,797,628)	(150,714)	0	(3,948,342)
Furniture and Equipment	(366,747)	(40,536)	0	(407,283)
Vehicles	(732,359)	(94,631)	63,996	(762,994)
Total Accumulated Depreciation	(4,896,734)	(285,881)	63,996	(5,118,619)
Total Capital Assets being depreciated, net	2,827,316	(113,873)	0	2,713,443
Governmental Activities Capital Assets, Net	\$ 4,062,780	\$ 6,528,632	\$ 0	\$ 10,591,412

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	156,728
Support Services:		
Pupils		410
Administration		1,382
Fiscal		2,058
Operation and Maintenance of Plant		6,213
Pupil Transportation		96,836
Operation of Non-Instructional Services		2,185
Extracurricular Activities		<u>20,069</u>
Total Depreciation	\$	<u>285,881</u>

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MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9: LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2004 were as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Energy Notes:					
1994 - 6.10% interest rate, maturing January 2004	\$ 3,750	\$ 0	\$ (3,750)	\$ 0	\$ 0
1997 - 6.00% interest rate, maturing August 2007	76,925	0	(18,100)	58,825	18,100
1999 - 5.25% interest rate, maturing June 2009	<u>71,922</u>	<u>0</u>	<u>(10,416)</u>	<u>61,506</u>	<u>11,096</u>
Total Energy Notes	152,597	0	(32,266)	120,331	29,196
General Obligation Bonds:					
2002 Classroom Facilities Bonds:					
Series Bonds	13,580,000	0	(175,000)	13,405,000	200,000
Capital Appreciation Bonds	294,998	0		294,998	0
Accretion on Capital Appreciation Bonds	<u>0</u>	<u>75,092</u>	<u>0</u>	<u>75,092</u>	<u>0</u>
Total General Obligation Bonds	13,874,998	75,092	(175,000)	13,775,090	200,000
Compensated Absences	<u>1,331,353</u>	<u>0</u>	<u>(25,358)</u>	<u>1,305,995</u>	<u>55,659</u>
Total long-term obligations - governmental activities	<u>\$ 15,358,948</u>	<u>\$ 75,092</u>	<u>\$ (232,624)</u>	<u>\$ 15,201,416</u>	<u>\$ 284,855</u>

Energy conservation notes were issued to provide energy improvements to various buildings.

On June 1, 2002, Minerva Local School District issued \$14,024,998 in general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amount of \$13,730,000 and \$294,998, respectively. The general obligation bonds were issued for the purpose of constructing and renovating various school holdings within the School District.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire governmental activities bond and note debt are as follows:

Year Ending	General Obligation Bonds		Capital Appreciation Bonds		Energy Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 668,928	\$ 0	\$ 0	\$ 29,196	\$ 6,078	\$ 229,196	\$ 675,006
2006	225,000	662,440	0	0	29,792	4,401	254,792	666,841
2007	250,000	654,765	0	0	30,421	2,686	280,421	657,451
2008	275,000	645,628	0	0	17,509	1,137	292,509	646,765
2009	300,000	634,903	0	0	13,413	371	313,413	635,274
2010-2014	1,115,000	3,023,069	155,575	284,425	0	0	1,270,575	3,307,494
2015-2019	2,550,000	2,578,793	139,423	300,577	0	0	2,689,423	2,879,370
2020-2024	3,275,000	1,831,523	0	0	0	0	3,275,000	1,831,523
2025-2029	4,230,000	844,820	0	0	0	0	4,230,000	844,820
2030	985,000	26,102	0	0	0	0	985,000	26,102
Total	\$ 13,405,000	\$ 11,570,971	\$ 294,998	\$ 585,002	\$ 120,331	\$ 14,673	\$ 13,820,329	\$ 12,170,646

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For fiscal year ended June 30, 2004, plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,125,960, \$1,096,764 and \$1,022,352, respectively; 85% has been contributed for fiscal year 2004, and 100% for fiscal years 2003 and 2002. \$180,124, representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

B. School Employees Retirement System

Minerva Local 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10% 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% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% 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 \$301,296, \$304,500 and \$283,032, respectively; 55% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$138,312, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all but one members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 11: POSTEMPLOYMENT BENEFITS

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

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. The STRS Ohio Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$77,174 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, the health care costs paid by STRS were \$268,739,000 and STRS had 118,853 eligible benefit recipients.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11: POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% 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% of covered payroll, a decrease of .92% from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$163,830.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care 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 had approximately 62,000 participants currently receiving health care benefits.

NOTE 12: DEFERRED REVENUE

Deferred revenue at June 30, 2004 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 5,681,895	\$ 5,818,876
Grants Receivable	0	6,378
Deferred Revenue	<u>\$ 5,681,895</u>	<u>\$ 5,825,254</u>

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 13: INTERFUND TRANSFERS

A. Interfund Transactions

As of June 30, 2004, balance sheet receivables and payables that resulted from cash advances were as follows:

	Advances to Other Funds	Advances from Other Funds	Interfund Receivable	Interfund Payable
General Fund	\$ 5,450	\$ 0	\$ 0	\$ 185,000
Other Governmental:				
Title I Fund	0	5,450	0	0
Internal Service	0	0	185,000	0
Totals	\$ 5,450	\$ 5,450	\$ 185,000	\$ 185,000

B. Reconciliation of Interfund Transfers

	Transfers In	Transfers Out
Governmental Fund Type:		
General	\$ 0	\$ 207,281
Other Governmental Funds:		
Ohio Reads	2,000	0
Summer School Subs	16,221	0
Food Service	169,522	0
Athletics	20,002	0
Public School Support	0	464
Total	\$ 207,745	\$ 207,745

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 14: STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Reserve	Capital Acquisition	BWC Refund	Totals
Set-aside balance as of June 30, 2003	\$ (56,364)	\$ 0	\$ 70,106	\$ 13,742
Current year set-aside requirement	298,793	298,793	0	597,586
Current year qualifying disbursements	(229,029)	(265,082)	0	(494,111)
Proceeds from bonds/notes for capital outlay	0	(13,866,266)	0	(13,866,266)
Total	\$ 13,400	\$ (13,832,555)	\$ 70,106	\$(13,749,049)
Set-aside balance carried forward to FY 2004	\$ 13,400	\$ 0	\$ 70,106	
Cash balance carried forward to FY 2005	\$ 13,400	\$ 0	\$ 70,106	

Effective April 10, 2003, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2003 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used.

The District had qualifying disbursements during the year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements in future years.

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

Amount restricted for BWC refund	\$ 70,106
Amount restricted for textbooks	13,400
Total Restricted Assets	\$ 83,506

The School District's General Fund pooled cash is not sufficient to allocate the restricted cash above at year end. Therefore, the Statement of Net Assets and the Balance Sheet does not reflect restricted cash.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 14: STATUTORY RESERVES (Continued)

The School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero. A portion of this extra amount (\$13,832,555) may be used to reduce the set-aside requirements for future years.

NOTE 15: CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had contractual commitments for construction of a new middle school and the renovation of the high school.

	Contractual <u>Commitment</u>	<u>Expended</u>	Balance <u>June 30, 2004</u>
Hammond Construction	\$ 1,289,861	\$ 629,529	\$ 660,332
Lawrence Dykes, Goodenreger, Vandegrift & Clancy	1,229,087	720,141	508,946
Electronic Service	50,699	0	50,699
Continental Educational	238,404	0	238,404
CT Taylor Company	384,928	372,595	12,333
The Knoch Corp.	3,801,001	1,807,171	1,993,830
Feinman Mechanical, Inc.	1,946,206	1,339,148	607,058
GMR Builders, Inc.	1,091,819	1,050,334	41,485
Hischler-Clarke Electric Co.	1,106,656	405,140	701,516
Comfort Control Group	202,116	100,173	101,943
Cincinnati Flooring Company	61,970	14,013	47,957
Spectra Contract Flooring	131,000	0	131,000
Raeder Construction, Inc.	611,592	0	611,592
Spring Electric Co.	118,095	0	118,095
Abbott Electric, Inc.	58,595	0	58,595
Emerald Environmental	7,950	0	7,950
Neteam Corporation	20,098	0	20,098
Gymnasium Equipment Co.	17,176	0	17,176
Wenger Co.	32,122	0	32,122
Today's Classroom	61,039	0	61,039
School Speciality, Inc.	17,995	0	17,995
Stark Co. Education Service Center	55,692	0	55,692
	<u>\$ 12,534,101</u>	<u>\$ 6,438,244</u>	<u>\$ 6,095,857</u>
Total	<u>\$ 12,534,101</u>	<u>\$ 6,438,244</u>	<u>\$ 6,095,857</u>

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 15: CONTRACTUAL COMMITMENTS (Continued)

In addition, the School District entered into the following contracts subsequent to June 30, 2004:

	Contractual Coimmitment	Expended	Balance June 30, 2004
Continental Education Enviroments	\$ 238,404	\$ 0	\$ 238,404
School Specialties	17,995	0	17,995
Today's Classrooms	61,039	0	61,039
 Total	\$ 317,438	\$ 0	\$ 317,438

NOTE 16: RISK MANAGEMENT

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$5,000 per incident on property and equipment. The School District's comprehensive property and casualty policy aggregate limit is approximately \$25,602,700. The School District's vehicle insurance policy limit is \$1,000,000 with a \$250 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 in aggregate. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Fidelity Bond

The Board President and Superintendent are covered under surety bonds in the amount of \$25,000. The Treasurer is covered under a surety bond in the amount of \$50,000. In addition, the people collecting money are covered under bonds of \$2,000 each.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Government Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium 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 performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "Equity Pooling Fund" arrangement insures 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 Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 16: RISK MANAGEMENT (Continued)

D. Employee Health Insurance

The District was self insured for its medical and dental insurance programs until June 30, 2003. Premiums were paid into the self-insurance fund and were available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covered specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$125,720 reported in the Internal Service Fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal years 2004 and 2003 are as follows:

	Beginning of Year	Claims	Payments	Balance at End of Year
2004	\$ 107,090	\$ 18,630	\$ 0	\$ 125,720
2003	\$ 291,644	\$ 1,343,917	\$ 1,528,471	\$ 107,090

E. Risk Sharing Pool

Effective July 1, 2003, the District has contracted with Stark County Schools Council of Governments (the "Council") to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one, and a common premium rate is applied to all member districts.

Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board. For fiscal year 2004, the District's monthly premiums were \$755.90 for family coverage and \$310.62 for single coverage. Dental insurance is also provided by the District to qualified employees through the Stark County Schools Council for Governments. For fiscal year 2004, the District's cost was \$94.97 for family coverage and \$38.50 for single coverage per employee per month. Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

The District provided life insurance and accidental death and dismemberment insurance coverage of \$30,000 to all employees through the Stark County Schools Council of Governments Health Benefits Program.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 17: PUBLIC ENTITY RISK POOL

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the School District by the group with other members of the group. The injury claim history of all participating members are used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

A. Stark Portage Area Computer Consortium

Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The District paid \$28,623 to SPARCC during the fiscal year 2004. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709-2300.

B. Stark County Joint Vocational School

The Stark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a seven member board, consisting of one representative from each of the six participating school district's elected boards and one board member that rotates from each participating school district. The Stark County Joint Vocational School possesses its own budgeting and taxing authority. To obtain financial information write to the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

MINERVA LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 19: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is not party to any claims or lawsuits that would have a material effect on the basic financial statements.

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 is unconstitutional.

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

NOTE 21: LION DIGITAL ACADEMY

The Academy has been determined to be a blended component unit. The School District's management has determined it is not significant; therefore, it has not been included as part of the School District's basic financial statements.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 3, 2005

To the Board of Education
Minerva Local School District
Minerva, OH 44657

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Minerva Local School District (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 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated February 3, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 3, 2005.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 3, 2005

To the Board of Education
Minerva Local School District
Minerva, OH 44657

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

Compliance

We have audited the compliance of the Minerva Local School District (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 and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over compliance that we have reported to management of the District in a separate letter dated February 3, 2005.

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

Hea & Associates, Inc.

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION (Passed through Ohio Department of Education)						
Title 1, Part A, ESEA						
Elementary and Secondary Education Act	84.010	C1-S1 2003	\$ 39,597		\$ 38,229	
		C1-S1 2004	299,731		262,004	
Total Title 1, Part A, ESEA			<u>339,328</u>		<u>300,233</u>	
Special Education Grants to States	84.027	6B-SF 2004	216,242		186,169	
Eisenhower Professional Development Grant	84.281	MS-S1 2002	1,049		1,049	
Innovative Education Program Strategies	84.298	C2-S1 2003	1,235		(7)	
		C2-S1 2004	12,184		12,184	
Total Innovative Education Program Strategies			<u>13,419</u>		<u>12,177</u>	
Technolgy Literacy Challenge Grant	84.318	TJ-S1 2003	1,265		0	
		TJ-S1 2004	1,203		0	
Total Technology Literacy Challenge Grant			<u>2,468</u>		<u>0</u>	
Title VI R Class Reduction	84.340	CR-S1 2003	30,856		13,702	
		CR-S1 2004	101,988		92,954	
Total Technology Literacy Challenge Grant			<u>132,844</u>		<u>106,656</u>	
Eisenhower Professional Development Grant	84.352A	AT-S4 2003	0		4,170	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DR-S1 2004	10,813		10,813	
Total U. S. Department of Education			<u>716,163</u>		<u>621,267</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Passed through Ohio Department of Mental Retardation and Developmental Disabilities):						
Medical Assistance Program (CAFS)	93.778	FY 2004	48,430		22,959	
Total U.S. Department of Health and Human Services			<u>48,430</u>		<u>22,959</u>	
U. S. DEPARTMENT OF AGRICULTURE (Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program	10.550	FY04		\$ 77,259		\$ 77,259
National School Breakfast Program	10.553		5,880		5,880	
National School Lunch Program	10.555	LL-P4 2003	55,113		55,113	
		LL-P4 2004	148,648		148,648	
Total National School Lunch Program			<u>203,761</u>		<u>203,761</u>	
Total US Department of Agriculture - Nutrition Cluster			<u>209,641</u>	<u>77,259</u>	<u>209,641</u>	<u>77,259</u>
Total Federal Financial Assistance			<u>\$ 974,234</u>	<u>\$ 77,259</u>	<u>\$ 853,867</u>	<u>\$ 77,259</u>

See notes to schedule of expenditures of federal awards.

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2004, the School District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(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 reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Nutrition Cluster Title I	CFDA # 10.55* CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**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

**4. SUMMARY SCHEDULE OF PRIOR AUDIT
FINDINGS AND CORRECTIVE ACTION PLAN**

NONE



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2005**