



**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Medina City School District, Medina County, Ohio, (the District) as of and for the year ended June 30, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Medina City School District, Medina County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

#### **Federal Awards Receipts and Expenditures Schedule**

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



**Betty Montgomery**  
Auditor of State

November 10, 2005

**Medina City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The discussion and analysis of Medina City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key Financial Highlights for fiscal year 2005 are as follows:

- In total, net assets increased by \$7,445. The greatest contribution to this increase was the \$3,268,133 increase in general revenue property taxes (a 7.95% increase). This increase was offset by a \$3,448,709 adjustment to accumulated depreciation for capital assets purchased in prior years.
- Expenses totaled \$74,679,783 which is a 3.13% increase from the prior year. Instructional expenses made up 56.5 percent of this total while support services accounted for 33.7 percent. Other expenses rounded out the remaining 9.8 percent.
- Outstanding general obligation bonded debt decreased to \$89,655,636 from \$91,227,679 the prior year.
- The School District voters approved a new 7.9 mill continuing property tax levy in February 2005. The new levy will be collected starting in 2006. The County Auditor estimated that annual property tax revenue for this levy will be approximately \$8,925,500.
- The Ohio State General Assembly passed HB66 State Budget for the two year period starting in July 2005 and continuing through June 2007. The budget included tax reforms and changes in the foundation funding for school districts. The School District does not expect any increases in foundation funding per pupil for the next two years.
- The School District sold \$55,995,000 General Obligation Refunding Bonds, Series 2005. The Bonds are being issued to advance refund the callable portion of the District's outstanding 1999 bonds. The refinancing reduces the School District's total debt service payments over the next fifteen years by \$4,302,685 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,665,944.

**Using this Annual Financial Report**

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

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

**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, bond retirement debt service fund and the building capital improvement fund.

*Governmental Funds*

Most of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and

**Medina City School District**  
*Management's Discussion and Analysis*  
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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.

**The School District as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table I  
Net Assets

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current and Other Assets	\$71,413,653	\$66,735,488
Capital Assets, Net	99,191,351	102,151,140
Total Assets	<u>170,605,004</u>	<u>168,886,628</u>
<b>Liabilities</b>		
Current and Other Liabilities	51,315,437	47,952,088
Long-Term Liabilities:		
Due Within One Year	6,027,156	3,796,461
Due in More than One Year	89,598,200	93,481,313
Total Liabilities	<u>146,940,793</u>	<u>145,229,862</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	20,408,352	17,761,333
Restricted:		
Capital Projects	1,433,038	1,471,099
Debt Service	3,165,430	4,245,595
Set Asides	229,687	229,687
Other Purposes	1,697,080	1,704,096
Unrestricted	<u>(3,269,376)</u>	<u>(1,755,044)</u>
Total Net Assets	<u><u>\$23,664,211</u></u>	<u><u>\$23,656,766</u></u>

Total assets increased by \$1.7 million. The majority of this increase can be attributed to current assets increasing \$4.7 million. This increase was due to recognizing increases of \$6.0 million in property taxes receivables, including a new 7.9 mill continuing operating levy passed in 2005 and due to equity in pooled cash decreasing \$1.8 million. Additionally, capital assets decreased nearly \$2.9 million in 2005.

Total liabilities increased \$1.7 million. Current liabilities increased 3.4 million, primarily due to an increase of \$3.7 million in deferred revenue. Long-term liabilities due within one year increased by \$2.2 million. These increases were partially offset by a decrease of \$3.9 million in long-term liabilities due in more than one year.

**Medina City School District**  
*Management's Discussion and Analysis*  
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Total net assets increased \$7,445. Invested in capital, net of debt increased \$2.6 million, debt service decreased \$1.1 million, and unrestricted decreased \$1.5 million.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$67.6 million or 90.45 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equaled to \$7.1 million or only 9.55 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Table 2  
Change in Net Assets

	<b>2005</b>	<b>2004</b>
Revenues		
Program Revenues:		
Charges for Services	\$3,820,400	\$2,842,924
Operating Grants and Contributions	2,944,764	3,251,932
Capital Grants and Contributions	366,773	35,400
Total Program Revenues	<u>7,131,937</u>	<u>6,130,256</u>
General Revenue:		
Property Taxes	44,395,496	41,127,363
Grants and Entitlements	22,126,256	21,935,229
Investments	521,427	277,491
Miscellaneous	512,112	289,737
Total General Revenues	67,555,291	63,629,820
Total Revenues	<u>74,687,228</u>	<u>69,760,076</u>
Program Expenses		
Instruction		
Regular	33,894,621	30,492,589
Special	7,745,506	7,360,275
Vocational	533,037	726,501
Support Services:		
Pupil	3,372,936	3,634,259
Instructional Staff	3,674,329	3,923,053
Board of Education	106,870	100,340
Administration	4,806,107	4,945,246
Fiscal	1,348,827	1,484,397
Business	657,150	714,165
Operation and Maintenance	7,211,009	7,491,936
Pupil Transportation	3,570,296	3,073,033
Central	395,968	410,944
Operating of Non-Instructional Services	704,692	1,346,962
Food Service Operations	1,622,179	721,010
Extracurricular Activities	1,386,898	1,443,639
Interest and Fiscal Charges	3,649,358	4,546,606
Total Program Expenses	<u>74,679,783</u>	<u>72,414,955</u>
Increase/(Decrease) in Net Assets	7,445	(2,654,879)
Net Assets Beginning of Year	<u>23,656,766</u>	<u>26,311,645</u>
Net Assets End of Year	<u><u>\$23,664,211</u></u>	<u><u>\$23,656,766</u></u>

**Medina City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

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***Governmental Activities***

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In February of 2005, the School District successfully passed a 7.9 mill continuing levy that is currently estimated to generate approximately \$9 million dollars of revenue per year. Collections begin in 2006. The full effect of this levy will be realized in fiscal year 2007. This additional income is dedicated to the operational and capital needs of the School District in future years.

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

As one can see, 56 percent of the School Districts budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 34 percent. The remaining amount of program expenses, roughly 10 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

Most cost categories decreased 3% to 9% due to budget reductions following two levy failures. Some notable categories and their primary reasons for changing are:

- an increase of 9.3% in instruction - due to increases in depreciation and personnel costs
- an increase of 16.2% in transportation - due to increases in depreciation costs
- a decrease of 9.1% in fiscal service due reduction in force
- a decrease of 7.2% in pupil support due to a reduction in force
- a decrease of 6.3% in instructional staff support due to a reduction in force
- a decrease of 19.7% in interest and fiscal charges due to a advance refunding of bonds

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

**Medina City School District**  
*Management's Discussion and Analysis*  
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Table 3  
*Governmental Activities*

	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2005</b>
Instruction		
Regular	\$33,894,621	(\$32,989,981)
Special	7,745,506	(6,608,826)
Vocational	533,037	(530,074)
Support Services:		
Pupil	3,372,936	(2,919,810)
Instructional Staff	3,674,329	(3,117,919)
Board of Education	106,870	(106,870)
Administration	4,806,107	(4,437,259)
Fiscal	1,348,827	(1,348,827)
Business	657,150	(633,884)
Operation and Maintenance	7,211,009	(6,202,093)
Pupil Transportation	3,570,296	(3,482,166)
Central	395,968	(346,018)
Operating of Non-Instructional Services	704,692	(123,317)
Food Service Operations	1,622,179	(118,990)
Extracurricular Activities	1,386,898	(932,454)
Interest and Fiscal Charges	3,649,358	(3,649,358)
Total Expenses	<u>\$74,679,783</u>	<u>(\$67,547,846)</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 59.4 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 29.6 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 10.0 percent of all governmental expenses.

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

### School District's Funds

Information regarding the School District's major funds can be found on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$72,503,417 and expenditures of \$75,438,934. The \$3.5 million decline in the general fund balance was due to revenues increasing from \$55.9 million to \$57.8 million while expenditures stayed at \$61.3 million.

### General Fund Budgeting Highlights

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

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*Management's Discussion and Analysis*  
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During the course of fiscal 2005, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenditures but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$57,652,157; this was above original budget estimates of \$54,702,360. The main difference between the original and final estimates was due to under-estimation in three areas: tax receipts, intergovernmental receipts and rent receipts. The budget basis expenditures estimate totaled \$62,683,248 compared to original estimates of \$62,884,501. This difference is too small to be material.

The School District's unencumbered ending cash balance totaled \$10,135,044, which was above the original budgeted amount.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2005, the School District had \$99,191,351 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2005 values compared to 2004.

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

	Governmental Activities	
	2005	2004
Land	\$3,016,769	\$3,016,769
Land Improvements	1,529,125	1,580,698
Buildings and Improvements	91,804,743	94,834,363
Furniture and Equipment	704,459	592,900
Vehicles	2,136,255	2,126,410
Totals	\$99,191,351	\$102,151,140

All capital assets, except land, are reported net of depreciation. One increase in capital assets during the fiscal year occurred in the buildings and improvements category. The increase in the buildings and improvements category is mainly due to the reclassification of senior high project construction in progress to buildings and improvements as the balance of the work in completed and vendors paid. The other increase in capital assets occurred in the furniture and equipment category. This increase can also be attributed to final equipment purchases for the senior high project. For more information on capital assets refer to Note 10 of the basic financial statements.

**Medina City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

*Debt*

At June 30, 2005 the School District had \$89,655,636 in outstanding bonds and notes. Table 5 below summarizes the School District's outstanding bonds and notes.

(Table 5)  
*Outstanding Debt at Year End*

	Governmental Activities	
	2005	2004
1992 Various School Improvements	\$3,294,492	\$3,476,539
1998 Refunding Bonds	11,644,479	11,646,115
1999 Various School Improvements	14,004,538	75,105,025
2005 Refunding Bonds	59,762,127	0
2004 Transportation Notes	0	1,000,000
2005 Transportation Notes	950,000	0
Totals	\$89,655,636	\$91,227,679

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

The 1998 refunding bonds were issued to advance refund the 1992 various school improvement bonds. This debt will be fully repaid in the year 2018.

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

The 2005 refunding bonds were issued to advance refund the 1999 various school improvement bonds. This debt will be fully repaid in the year 2028. The 1992, 1998, 1999 and 2005 general obligation bonds include capital appreciation bonds. Each year, an annual amount of accretion of discounted interest has to be added to the principal amount of the bonds.

The School District's overall legal debt margin was \$22,101,429 with an unvoted debt margin of \$1,063,720. The School District maintains an Aa3 bond rating. For more information on debt refer to Note 16 and 17 of the basic financial statements.

**School District Outlook**

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan.

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

**Medina City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

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Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the Medina voters had passed a 7.9 mill continuing operating levy in February of 2005, which will help fund the general operations of the School District over the next few years. The School District is expecting to have a positive general fund balance through the end of the 2008 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2008 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

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

Medina City School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at an inflationary rate of 2.2 percent per year for future years. The affect of a 2004 triennial update will have a negative affect on the State's share of per pupil funding. With 59.4 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

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

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Wallace M. Gordon, Treasurer/Chief Financial Officer, at Medina City School District, 140 West Washington Street, Medina, Ohio 44256, or email at [WGordon@mcssoh.org](mailto:WGordon@mcssoh.org)

**Medina City School District**

*Statement of Net Assets*

*June 30, 2005*

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	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$21,809,288
Accounts Receivable	7,486
Intergovernmental Receivable	619,799
Prepaid Items	619,803
Inventory Held for Resale	50,744
Materials and Supplies Inventory	53,034
Property Taxes Receivable	47,761,109
Deferred Charges	492,390
Nondepreciable Capital Assets	3,016,769
Depreciable Capital Assets, Net	96,174,582
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<i>Total Assets</i>	170,605,004
	<hr/>
<b>Liabilities</b>	
Accounts Payable	368,828
Contracts Payable	43,473
Accrued Wages	4,784,218
Intergovernmental Payable	2,104,639
Deferred Revenue	42,638,880
Notes Payable	950,000
Accrued Interest Payable	425,399
Long-Term Liabilities:	
Due Within One Year	6,027,156
Due In More Than One Year	89,598,200
	<hr/>
<i>Total Liabilities</i>	146,940,793
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<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	20,408,352
Restricted for:	
Capital Projects	1,433,038
Debt Service	3,165,430
Set-Asides	229,687
Public School Support	589,713
Food Service	692,413
Other Purposes	414,954
Unrestricted	(3,269,376)
	<hr/>
<i>Total Net Assets</i>	\$23,664,211
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See accompanying notes to the basic financial statements



**Medina City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	General	Bond Retirement	Building
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$11,792,948	\$6,418,483	\$807,268
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	229,687	0	0
Receivables:			
Property Taxes	40,548,263	6,659,988	0
Accounts	6,781	0	0
Interfund	54,768	0	0
Intergovernmental	11,786	0	226,168
Inventory Held for Resale	0	0	0
Materials and Supplies Inventory	49,084	0	0
Prepaid Items	586,850	0	0
<i>Total Assets</i>	<u>\$53,280,167</u>	<u>\$13,078,471</u>	<u>\$1,033,436</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$221,280	\$350	\$2,500
Contracts Payable	0	0	12,567
Accrued Wages	4,493,306	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	1,869,614	0	0
Accrued Interest Payable	0	0	5,229
Notes Payable	0	0	950,000
Deferred Revenue	38,864,532	6,249,899	0
<i>Total Liabilities</i>	<u>45,448,732</u>	<u>6,250,249</u>	<u>970,296</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	1,680,516	60,272	481,415
Reserved for Property Taxes	1,683,731	410,089	0
Reserved for Budget Stabilization	229,687	0	0
Unreserved: Undesignated, Reported in:			
General Fund	4,237,501	0	0
Special Revenue Funds	0	0	0
Debt Service Funds	0	6,357,861	0
Capital Projects Funds (Deficit)	0	0	(418,275)
<i>Total Fund Balances</i>	<u>7,831,435</u>	<u>6,828,222</u>	<u>63,140</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$53,280,167</u>	<u>\$13,078,471</u>	<u>\$1,033,436</u>

See accompanying notes to the basic financial statements

**Medina City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities*  
 June 30, 2005

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	\$16,894,988
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$2,560,902	\$21,579,601	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	99,191,351
0	229,687		
552,858	47,761,109	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
705	7,486	Delinquent Property Taxes	3,008,377
0	54,768	Grants	122,631
381,845	619,799		
50,744	50,744	Total	3,131,008
3,950	53,034		
32,953	619,803	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(420,170)
\$3,583,957	\$70,976,031		
		Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on a full accrual basis.	
\$144,698	\$368,828	Issuance Costs	492,390
30,906	43,473		
290,912	4,784,218	Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
54,768	54,768	General Obligation Bonds	(74,560,079)
235,025	2,104,639	Capital Appreciation Bonds	(7,091,513)
0	5,229	Accretion	(6,561,556)
0	950,000	Premium on Bonds	(3,818,691)
655,457	45,769,888	Accounting Loss/Gain	3,326,203
		Compensated Absences	(6,919,720)
346,033	2,568,236	Total	(95,625,356)
20,032	2,113,852		
0	229,687	<i>Net Assets of Governmental Activities</i>	\$23,664,211
0	4,237,501		
1,475,811	1,475,811		
0	6,357,861		
330,315	(87,960)		
2,172,191	16,894,988		
\$3,583,957	\$70,976,031		

**Medina City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Bond Retirement	Building
<b>Revenues</b>			
Property Taxes	\$34,491,918	\$7,166,508	\$70,000
Intergovernmental	21,247,209	842,216	226,168
Interest	480,118	6,400	16,498
Tuition and Fees	338,617	0	0
Charges for Services	34,236	0	0
Extracurricular Activities	248,292	0	0
Rent	784,629	0	0
Contributions and Donations	390	0	0
Miscellaneous	146,122	0	180,795
<i>Total Revenues</i>	<u>57,771,531</u>	<u>8,015,124</u>	<u>493,461</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	30,499,373	0	0
Special	6,455,610	0	0
Vocational	433,957	0	0
Support Services:			
Pupils	2,801,783	0	0
Instructional Services	2,864,811	0	0
Board of Education	106,870	0	0
Administration	4,211,041	0	0
Fiscal	1,262,485	136,932	0
Business	686,360	0	0
Operation and Maintenance of Plant	7,174,756	0	0
Pupil Transportation	2,976,035	0	0
Central	356,529	0	0
Operation of Non-Instructional Services	14,611	0	0
Food Service Operations	0	0	0
Extracurricular Activities	1,056,941	0	0
Capital Outlay	399,222	0	1,649,424
Debt Service:			
Principal Retirement	0	2,738,112	0
Interest and Fiscal Charges	0	2,890,230	23,371
Bond Issuance Costs	0	513,798	0
<i>Total Expenditures</i>	<u>61,300,384</u>	<u>6,279,072</u>	<u>1,672,795</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,528,853)</u>	<u>1,736,052</u>	<u>(1,179,334)</u>
<b>Other Financing Sources (Uses)</b>			
Refunding Bonds Issued	0	59,239,897	0
Payment to Refunded Bond Escrow Agent	0	(62,710,820)	0
Premium on Debt Issuance	0	3,984,721	0
Transfers In	0	69,944	0
Transfers Out	(69,944)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(69,944)</u>	<u>583,742</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(3,598,797)	2,319,794	(1,179,334)
<i>Fund Balances Beginning of Year</i>	<u>11,430,232</u>	<u>4,508,428</u>	<u>1,242,474</u>
<i>Fund Balances End of Year</i>	<u>\$7,831,435</u>	<u>\$6,828,222</u>	<u>\$63,140</u>

See accompanying notes to the basic financial statements

**Medina City School District**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

Other Governmental Funds	Total Governmental Funds
\$521,462	\$42,249,888
2,993,818	25,309,411
18,411	521,427
439,266	777,883
1,446,451	1,480,687
528,909	777,201
0	784,629
89,789	90,179
185,195	512,112
<u>6,223,301</u>	<u>72,503,417</u>
641,589	31,140,962
987,044	7,442,654
24,051	458,008
480,672	3,282,455
590,443	3,455,254
0	106,870
386,086	4,597,127
0	1,399,417
23,693	710,053
0	7,174,756
3,432	2,979,467
62,379	418,908
2,064,978	2,079,589
119,736	119,736
303,535	1,360,476
499,045	2,547,691
0	2,738,112
0	2,913,601
0	513,798
<u>6,186,683</u>	<u>75,438,934</u>
<u>36,618</u>	<u>(2,935,517)</u>
0	59,239,897
0	(62,710,820)
0	3,984,721
0	69,944
0	(69,944)
<u>0</u>	<u>513,798</u>
36,618	(2,421,719)
<u>2,135,573</u>	<u>19,316,707</u>
<u>\$2,172,191</u>	<u>\$16,894,988</u>

**Net Change in Fund Balances - Total Governmental Funds** (\$2,421,719)

*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.

Capital Asset Additions	1,918,851	
Current Year Depreciation	<u>(4,878,640)</u>	
Total		(2,959,789)

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

Delinquent Property Taxes	2,215,608	
Intergovernmental	<u>(31,797)</u>	
Total		2,183,811

Other financing sources in the governmental funds increased long-term liabilities in the statement of net-assets. Governmental funds report the effect of premiums when debt is first issued; however these are deferred and amortized on the statement of activities.

Bonds Issued	(59,239,897)	
Premium on Bonds	<u>(3,984,721)</u>	
Total		(63,224,618)

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

Bond Principal	2,738,112	
Payment to Refunded Bond Escrow Agent	<u>62,710,820</u>	
Total		65,448,932

Bond issuance costs will be amortized over the life of the bonds on the statement of assets. 513,798

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

Accrued Interest	(12,078)	
Annual Accretion	(723,684)	
Amortization of Bond Premium	166,030	
Amortization of Bond Issuance Costs	(21,408)	
Amortization of Loss on Refunding	<u>(144,617)</u>	
Total		(735,757)

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

Compensated Absences	130,375	
Pension Obligation	<u>1,072,412</u>	

Total 1,202,787

*Change in Net Assets of Governmental Activities* \$7,445

**Medina City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$33,337,364	\$34,427,601	\$34,427,601	\$0
Intergovernmental	20,253,868	21,268,684	21,268,684	0
Interest	200,000	428,542	480,118	51,576
Tuition and Fees	216,819	319,472	336,695	17,223
Charges for Services	19,126	34,236	34,236	0
Extracurricular Activities	190,046	248,292	248,292	0
Rentals	406,500	783,235	786,459	3,224
Contributions and Donations	0	390	390	0
Miscellaneous	78,637	141,705	145,045	3,340
<i>Total Revenues</i>	<u>54,702,360</u>	<u>57,652,157</u>	<u>57,727,520</u>	<u>75,363</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	30,632,556	31,073,641	31,072,476	1,165
Special	6,728,605	6,463,489	6,463,489	0
Vocational	516,009	455,335	455,335	0
Support Services:				
Pupils	3,297,100	2,903,840	2,903,840	0
Instructional Staff	2,155,006	2,807,822	2,807,822	0
Board of Education	118,650	110,528	110,528	0
Administration	4,400,230	4,222,837	4,222,837	0
Fiscal	1,386,404	1,347,255	1,347,255	0
Business	854,530	738,488	738,488	0
Operation and Maintenance of Plant	7,539,632	7,616,615	7,616,615	0
Pupil Transportation	3,178,392	3,093,190	3,093,190	0
Central	363,141	353,300	353,300	0
Operation of Non-Instructional Services	0	15,373	15,373	0
Extracurricular Activities	1,279,515	1,053,552	1,053,552	0
Capital Outlay	434,731	427,983	427,983	0
<i>Total Expenditures</i>	<u>62,884,501</u>	<u>62,683,248</u>	<u>62,682,083</u>	<u>1,165</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(8,182,141)</u>	<u>(5,031,091)</u>	<u>(4,954,563)</u>	<u>76,528</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	200,000	70,200	70,200	0
Advances Out	(200,000)	(54,768)	(54,768)	0
Transfers Out	(21,954)	(69,944)	(69,944)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(21,954)</u>	<u>(54,512)</u>	<u>(54,512)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(8,204,095)</u>	<u>(5,085,603)</u>	<u>(5,009,075)</u>	<u>76,528</u>
<i>Fund Balance Beginning of Year</i>	13,662,434	13,662,434	13,662,434	0
Prior Year Encumbrances Appropriated	1,481,685	1,481,685	1,481,685	0
<i>Fund Balance End of Year</i>	<u>\$6,940,024</u>	<u>\$10,058,516</u>	<u>\$10,135,044</u>	<u>\$76,528</u>

See accompanying notes to the basic financial statements

**Medina City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2005*

	Private Purpose Trust Funds	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$545,189	\$169,727
<b>Liabilities</b>		
Due to Students	\$0	\$169,727
<b>Net Assets</b>		
Held in Trust for Scholarship	\$545,189	

See accompanying notes to the basic financial statements

**Medina City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2005*

	Private Purpose Trust Funds
<b>Additions</b>	
Interest	\$70,746
Contributions and Donations	500
Miscellaneous	3,456
<i>Total Additions</i>	74,702
<b>Deductions</b>	
Scholarships Awarded	41,050
<i>Change in Net Assets</i>	33,652
<i>Net Assets Beginning of Year</i>	511,537
<i>Net Assets End of Year</i>	\$545,189

See accompanying notes to the basic financial statements

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 1 - Description of the School District and Report Entity**

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

The School District is located in Medina County and encompasses most of the City of Medina and portions of surrounding townships. The School District currently operates six elementary schools, two middle schools and one comprehensive high school, which are staffed by 31 administrators, 6 psychologists, 4 administrative secretaries, 466 certificated full-time teaching personnel, and 246.5 full-time-equivalent classified employees who provide services to 7,445 students and other community members.

*Reporting Entity*

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in two jointly governed organizations and an insurance purchasing pool. These organizations are the Medina County Career Center, Ohio Schools Council Association, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Program. These organizations are presented in Notes 18 and 19 to the basic financial statements.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 2 - Summary of Significant Accounting Policies**

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

***A. Basis of Presentation***

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

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

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

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

***B. Fund Accounting***

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

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

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

**Building Fund** The building fund accounts for various capital projects at the recreation center and the high school

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

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

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

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

### **D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Cash and Cash Equivalents***

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

During fiscal year 2005, investments were limited to repurchase agreements, mutual funds and STAROhio. Repurchase agreements are reported at cost, mutual funds are reported at fair values based on current share price.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during the fiscal year 2005 amounted to \$480,118, which included \$193,095 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are reported as cash equivalents.

***F. Inventory***

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

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

***G. Prepaid Items***

Payment made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include amounts required by statute to be set-aside by the School District for the purchase of textbooks, and capital improvements. See Note 19 for additional information regarding set asides.

***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of seven thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

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

***J. Interfund Balances***

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

***K. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

***L. Accrued Liabilities and Long-Term Obligations***

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

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

***M. Fund Balance Reserves***

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

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$6,525,235 of restricted net assets, \$796,756 of which are restricted by enabling legislation. Net assets restricted for other purposes include student activities, food service operations, special education, and classroom facilities maintenance.

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

***O. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

***P. Estimates***

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

***Q. Interfund Activity***

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

***R. Budgetary Data***

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

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

***S. Bond Issuance Costs***

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

***T. Gain/Loss on Refunding***

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, which ever is shorter, using the effective interest method.

**Note 3 – Changes in Accounting Principle**

For fiscal year 2005, the School District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 did not affect the presentation of the financial statements of the School District. The implementation of GASB Technical Bulletin No. 2004-2 had no material effect on the financial statements as they were previously reported as of June 30, 2004.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 4 –Legal Compliance and Accountability**

***A. Legal Compliance***

The School District did not encumber all commitments required by Ohio law.

***B. Accountability***

The following funds had deficit fund balances at June 30, 2005:

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
Other Grants	\$1,136
Entry Year Program	25
Miscellaneous State Grants	505
Title VI	3,917
EHA Preschool	1,475
Miscellaneous Federal Grants	995

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

**Note 5 - Budgetary Basis of Accounting**

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

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

Net Change in Fund Balance	
GAAP Basis	(\$3,598,797)
Net Adjustment for Revenue Accruals	(44,011)
Advances In	70,200
Net Adjustment for Expenditure Accruals	505,892
Advances Out	(54,768)
Adjustment for Encumbrances	<u>(1,887,591)</u>
Budget Basis	<u><u>(\$5,009,075)</u></u>

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District can 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,404,806 of the School District's bank balance of \$1,504,806 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of June 30, 2005, the School District had the following investments. All investments are in an internal investment pool.

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$20,063,043	Average 33 Days
Repurchase Agreement Sweep Account		
Federal Home Loan Mortgage	1,040,000	N/A
Scudder Mutual Funds	204,543	N/A
T. Rowe Price Mutual Funds	294,759	N/A
Kanehl Mutual Funds	10,264	N/A
Total Portfolio	<u>\$21,612,609</u>	

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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**Interest Rate Risk** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District and that investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** STAROhio carries a credit rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The federal home loan mortgage security carries a rating of AAA by Standard and Poor's.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Sweep account are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. Due to the characteristics of mutual funds, they are not subject to credit risk. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

## **Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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The School District receives property taxes from Medina County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$1,683,731 in the general fund, \$410,089 in the bond retirement debt service fund and \$20,032 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$1,619,414, in the general fund, \$373,601 in the bond retirement debt service fund and \$19,468 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$913,541,630	88.42%	\$956,470,380	89.92%
Public Utility	23,753,500	2.30	23,643,800	2.22
Tangible Personal Property	95,844,259	9.28	83,605,814	7.86
	<u>\$1,033,139,389</u>	<u>100.00%</u>	<u>\$1,063,719,994</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$87.13		\$87.13	

**Note 8 - Interfund Balances**

As of June 30, 2005, the general fund had a \$54,768 interfund receivable and the nonmajor funds had a corresponding \$54,768 interfund payable. The interfund receivable and payable are due to the timing of the receipt of grant monies by the nonmajor funds. The general fund had transfers of \$69,944 the Debt Service Fund to cover debt service payments

**Note 9 - Receivables**

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Tuition	\$11,786
Building Fund	226,168
Food Service	36,112
Public School Safety	936
Ohio Reads	4,060
Summer School Subsidy	59,673
Alternative Schools	8,250
Title VI-B	148,453
Limited English Proficiency	51
Title I	40,791
Title VI	52
Drug Free	3,255
EHA Preschool	10,540
Reducing Class Size	42,723
Miscellaneous Federal	6,370
Rotary	20,579
	<u>20,579</u>
Total	<u>\$619,799</u>

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$3,016,769	\$0	\$0	\$3,016,769
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,159,774	9,133	0	2,168,907
Buildings and Improvements	109,363,940	1,218,819	0	110,582,759
Furniture and Equipment	1,067,605	325,639	12,967	1,380,277
Vehicles	4,063,479	365,260	150,160	4,278,579
<i>Total Capital Assets, being depreciated</i>	<u>116,654,798</u>	<u>1,918,851</u>	<u>163,127</u>	<u>118,410,522</u>
Less Accumulated Depreciation:				
Land Improvements	(579,076)	(60,706)	0	(639,782)
Buildings and Improvements	(14,529,577)	(4,248,439)	0	(18,778,016)
Furniture and Equipment	(474,705)	(214,080)	(12,967)	(675,818)
Vehicles	(1,937,069)	(355,415)	(150,160)	(2,142,324)
Total Accumulated Depreciation	<u>(17,520,427)</u>	<u>(4,878,640) *</u>	<u>(163,127)</u>	<u>(22,235,940)</u>
Total Capital Assets, being depreciated, net	<u>99,134,371</u>	<u>(2,959,789)</u>	<u>0</u>	<u>96,174,582</u>
Governmental Activities Capital Assets, Net	<u>\$102,151,140</u>	<u>(\$2,959,789)</u>	<u>\$0</u>	<u>\$99,191,351</u>

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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\* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$2,467,838
Special	397,142
Vocational	104,362
Support Services:	
Pupils	181,848
Instructional Staff	445,943
Administration	359,273
Operation and Maintenance of Plant	264,559
Pupil Transportation	350,149
Central	1,395
Non-Instructional Services	246,886
Extracurricular Activities	59,245
Total Depreciation Expense	\$4,878,640

**Note 11 - Risk Management**

***A. Workers' Compensation***

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefits of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

***B. Property and Liability***

The School District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the School District contracted with several companies for various types of insurance as follows:

Company	Type of Coverage	Coverage Amount
Harcum-Schuett Insurance Agency	Education Liability	\$3,000,000
	Umbrella	2,000,000
Indiana Insurance Company	Property	196,970,499
	Fleet	3,006,000
	Crime	35,000
	Inland Marine	5,017,470
Ohio Casualty	Crime	250,000
Travelers	Boiler and Machinery	30,000,000

**Medina City School District**  
*Notes to the Basic Financial Statements*  
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Settled claims have not exceeded this commercial coverage in any of the last three years and there have been no significant reductions in insurance coverage from last year.

**Note 12 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$872,271, \$801,713 and \$691,371, respectively; respectively; 59 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

***B. State Teachers Retirement System***

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$4,011,591, \$4,042,799 and \$3,860,672, respectively; 84.7 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$26,849 made by the School District and \$54,460 made by the plan members.

**Note 13 - Post Employment Benefits**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$305,854 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS Ohio levies a surcharge to fund health care benefits equal to 14 percent of the difference

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$607,478 to fund health care benefits, including the surcharge.

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

#### **Note 14 - Other Employee Benefits**

##### ***A. Compensated Absences***

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

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

Administrators earn sick leave at the rate of one and one-fourth days per month. Administrative employees receive one hundred percent of sick leave days accumulated for the first forty days and fifty percent of sick leave days accumulated from the next one hundred twenty days up to a maximum of hundred days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS with a minimum of 5 years service in the District or upon disability retirement or death with no minimum years of service to the District.

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

##### ***B. Insurance Benefits***

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

The School District has contracted with QualChoice, a medical care program sponsored by University Hospital of Cleveland, to provide employee medical/surgical and prescription benefits. Dental insurance is provided by Medical Mutual. The School Board pays the premium cost of insurance coverage for all classified and certified employees. Administrators contribute 10% to the cost of the premiums for their insurance coverage. The employee pays a co-pay for office visits and prescriptions.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

**Note 15 - Operating Leases**

The School District is obligated under certain leases accounted for as operating leases. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2005.

<b>Fiscal Year Ending June 30</b>	<b>Amounts</b>
2006	207,814
2007	192,362
2008	42,485
2009	6,396
2010	3,731
Total Minimum Payments Required	\$452,788

**Note 16 – Notes Payable**

A summary of the note transactions for the year ended June 30th, 2005, follows:

	Outstanding 6/30/2004	Issued	Retired	Outstanding 6/30/2005
Governmental Activities:				
2% Transportation Facilities Note	\$1,000,000	\$950,000	\$1,000,000	\$950,000

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

**Note 17 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
Various School Improvements - 1992	3.7 - 10.50%	\$3,674,245	December 1, 2008
Refunding - 1998	3.6 - 15.70%	11,009,701	December 1, 2018
Various School Improvements - 1999	4.05%	77,649,923	December 1, 2028
Refunding - 2005	3.0 - 5.0%	59,239,818	December 1, 2028

**Medina City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

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

	Principal Outstanding 6/30/04	Additions	Reductions	Principal Outstanding 6/30/05	Amount Due in One Year
<b>General Obligation Bonds:</b>					
1992 Various School Improvements \$3,674,245 5.5%-6.45%					
Capital Appreciation Bonds	\$1,725,183	\$0	(\$398,112)	\$1,327,071	\$370,293
Accretion on Capital Appreciation Bonds	1,751,356	216,065	0	1,967,421	0
1998 Refunding Bonds					
\$10,545,000 4.5%-5.0% Serial and Term Bonds \$464,701 4.90%	9,480,000	0	(175,000)	9,305,000	180,000
Capital Appreciation Bonds	464,701	0	0	464,701	0
Accretion on Capital Appreciation Bonds	1,701,414	173,364	0	1,874,778	0
1999 Various School Improvements					
\$75,595,000 4.65% Serial and Term Bonds \$2,054,923 4.83-4.93%	70,665,000	0	(61,405,000)	9,260,000	2,460,000
Capital Appreciation Bonds	2,054,923	0	0	2,054,923	0
Accretion on Capital Appreciation Bonds	2,385,102	304,513	0	2,689,615	0
2005 Refunding Bonds					
\$55,995,000 4.90% Serial Bonds	0	55,995,000	0	55,995,000	2,010,000
Accounting Loss/Gain	0	144,617	(3,470,820)	(3,326,203)	0
Premium	0	3,984,721	(166,030)	3,818,691	0
\$3,244,818 4.83-4.93% Capital Appreciation Bonds	0	3,244,818	0	3,244,818	0
Accretion on Capital Appreciation Bonds	0	29,742	0	29,742	0
<b>Total General Obligation Bonds</b>	<b>90,227,679</b>	<b>64,092,840</b>	<b>(65,614,962)</b>	<b>88,705,557</b>	<b>5,020,293</b>
Compensated Absences	7,050,095	501,165	(631,461)	6,919,799	1,006,863
Total Governmental Activities Long-Term Liabilities	<u>\$97,277,774</u>	<u>\$64,594,005</u>	<u>(\$66,246,423)</u>	<u>\$95,625,356</u>	<u>\$6,027,156</u>

In 1992, the School District issued bonds for the renovation of various school buildings. In 1998, the School District issued bonds for the advance refunding of school improvements bonds. In 1999, the School District issued bonds for renovations and construction of various school buildings. In 2005, the School District issued bonds for the advance refunding of school improvements bonds

The 1992, 1998 and 1999 general obligation bonds include serial bonds and capital appreciation bonds. For the 1992 bonds, the additions were \$216,065 which represents the annual accretion of discounted interest. The final amount of the 1992 bonds will be \$8,250,000. For the 1998 bonds, the additions were \$173,364 which represents the annual accretion of discounted interest. The final amount of the 1998 capital appreciation bonds will be \$3,135,000. For the 1999 bonds, the additions were \$304,513 which represents the annual accretion of discounted interest. The final amount of the 1999 capital appreciation bonds will be \$5,765,000. For the 2005 bonds, the additions were \$29,742 which represents the annual accretion of discounted interest. The final amount of the 2005 capital appreciation bonds will be \$6,380,000.

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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The School District defeased the 1998 series general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2005, \$10,642,630 of bonds outstanding are considered defeased.

**Refunded Bonds**

On April 21, 2005, the School District issued \$55,995,079 in general obligation refunding bonds and 3,244,818 in capital appreciation refunding bonds at interest rates varying from 4.83 percent to 4.93 percent. Proceeds were used to refund \$59,240,000 of the outstanding 1999 various school improvement general obligation bonds as follows:

	1999 Various Improvement Bonds
Outstanding at June 30, 2004	\$70,665,000
Amount Refunded	(59,240,000)
Non-refunded Portion	11,425,000
Principal Payment on Non-Refunded Portion	(2,165,000)
Outstanding at June 30, 2005	<u>\$9,260,000</u>

The bonds were sold at a premium of \$3,984,721. Proceeds of \$62,710,820 (after underwriting fees and other issuance costs) were deposited in an irrevocable trust with escrow agent to provide for all future debt payments on the refunded 1999 various improvement bonds. As a result, \$59,240,000 of these bonds were considered defeased and the liability for the refunded bonds has been removed from the basic financial statements.

The refunding resulted in a difference between the acquisition price and the net carrying amount of the old debt of \$3,470,820. This difference, reported as a deduction from bonds payable, is being charge to interest through 2028. The School District completed the refunding to reduce its total debt service payments over the next fifteen years by \$4,302,685 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,665,944.

The School District's overall debt margin was \$22,101,429 with an unvoted debt margin of \$1,063,720 at June 30, 2005. Principal and interest requirements to retire general obligation bonds and capital appreciation bonds outstanding at June 30, 2005, are as follows:

**Medina City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2006	\$4,650,000	\$3,749,538	\$370,293	\$454,707
2007	1,174,999	5,065,527	1,400,584	2,199,416
2008	1,160,000	5,301,218	1,316,592	2,498,409
2009	3,660,000	3,208,048	294,525	530,475
2010	1,565,650	803,098	2,453,160	2,906,840
2011-2015	12,094,430	15,052,670	1,256,359	2,898,643
2016-2020	17,925,000	10,161,875	0	0
2021-2025	16,205,000	6,027,625	0	0
2026-2029	16,125,000	1,585,850	0	0
<b>Total</b>	<b>\$74,560,078</b>	<b>\$50,955,447</b>	<b>\$7,091,512</b>	<b>\$11,488,489</b>

**Note 18 - Jointly Governed Organizations**

**A. Medina County Career Center**

The Medina County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each participating School District's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Medina County Career Center is not part of the School District and its operations are not included as part of the reporting entity. The Medina County Career Center offers vocational education for Medina City School District. During fiscal year 2005, \$17,069 was paid by the Medina City School District. Financial information can be obtained by contacting the Treasurer, John Streett, at the Medina County Career Center, 1101 West Liberty Street, Medina, Ohio 44256.

**B. Ohio Schools Council Association**

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one School Districts.

The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year.

The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2005, the School District paid \$2,329 to the Council. Financial information can be obtained by contacting Dr. David A Cottrell, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998 and the natural gas program which was implemented during fiscal year 2001.

The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

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

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

**Note 19 - Insurance Purchasing Pool**

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

**Note 20 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

***B. Litigation***

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

**Note 21 - Set-Asides**

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

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside, with the remainder reverting to the General Fund.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Reserve
Set-aside Reserve Balances as of June 30, 2004	(\$6,584,052)	\$0	\$229,687
Current Year Set-aside Requirement	1,025,268	1,025,268	0
Qualifying Disbursements	(1,030,840)	(5,569,773)	0
Totals	<u>(\$6,589,624)</u>	<u>(\$4,544,505)</u>	<u>\$229,687</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$6,589,624)</u>	<u>\$0</u>	<u>\$229,687</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$229,687</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

**Note 22 - Recreation Center Joint Operating Agreement**

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

Under the terms of these agreements, the Recreation Center will be owned by the School District and the City will be granted a leasehold interest in the Recreation Center for a term commencing on the date the facilities are opened for public use and expiring on June 30, 2052, with an option to renew for an indefinite number of additional five year terms. The lease requires the City to prepay rent in the amount of \$7,500,000, which is due in installments as various phases of construction of the facility are completed. As of June 30, 2005, the City has paid \$7,500,000 to the School District.

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

The Recreation Center's Advisory Committee will consist of six members, in which two each will be

**Medina City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

The Recreation Center is accounted for as an undivided interest for the School District. The School District and the City each report 50 percent of the completed building and will each report their respective shares of the operating costs. Payments to the School District for the City's interest in the building are not reported as revenue of the School District on a GAAP basis.

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**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Lunch Program	044388	10.555	\$248,749		\$251,120	
Food Distribution Program	044388	10.550		\$185,891		\$185,891
Total U.S. Department of Agriculture - Nutrition Cluster			248,749	185,891	251,120	185,891
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Direct Assistance Program:</i>						
Fund for the Improvement of Education	00-044388	84.215	24,739		24,778	
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044388 C1-S1-2004 044388 C1-S1-2005	84.010	31,250 296,294		54,070 265,710	
Total Title I Grants to Educational Agencies			327,544		319,780	
Special Education Cluster:						
Special Education Grants to States	044388 6B-SF 2004 044388 6B-SF 2005	84.027	128,564 1,312,843		125,775 1,170,077	
Total Special Education Grants to States			1,441,407		1,295,852	
Special Education Preschool Grants	044388 PG-S1-2004 404388 PG-S1-2005	84.173	4,045 37,749		4,910 42,053	
Total Special Education Preschool Grants			41,794		46,963	
Total Special Education Cluster			1,483,201		1,342,815	
English Language Acquisition Grants	044388 T3-S2-2004 044388 T3-S2-2005	84.365	494 464		515	
Total English Language Acquisition Grants			958		515	
Innovative Education Program Strategies	044388 C2-S1-2004 044388 C2-S1-2005	84.298	10,517 35,328		9,566 31,428	
Total Innovative Education Program Strategies			45,845		40,994	
Safe and Drug Free Schools and Communities State Grants	044388 DR-S1-2004 044388 DR-S1 2005	84.186	1,174 23,323		22,959	
Total Safe and Drug Free Schools and Communities State Grants			24,497		22,959	
Education Technology State Grants	044388 TJ-S1-2004 044388 TJ-S1-2005	84.318	1,736 5,002		5,637	
Total Education Technology State Grants			6,738		5,637	
Improving Teacher Quality State Grants	044388 TR-S1-2004 044388 TR-S1-2005	84.367	31,958 153,415		37,861 137,737	
Total Improving Teacher Quality State Grants			185,373		175,598	
Safe And Drug-Free Schools And Communities National Programs	044388 T4-S1-2005	84.184C	16,140		15,756	
Total U.S. Department of Education <i>Passed through the Ohio Department of Education:</i>			2,090,296		1,924,054	
Total U.S. Department of Education			2,115,035		1,948,832	
<b>Total</b>			<b>\$2,363,784</b>	<b>\$185,891</b>	<b>\$2,199,952</b>	<b>\$185,891</b>

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

**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B -- CHILD NUTRITION CLUSTER**

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

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

**NOTE C -- MATCHING REQUIREMENTS**

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



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Medina City School District, Medina County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 10, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the District's management dated November 10, 2005, we reported other matters related to noncompliance we deemed immaterial.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Medina City School District  
Medina County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

November 10, 2005



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Medina City School District, Medina County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to its major federal program for the year ended June 30, 2005.

#### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

November 10, 2005

**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster CFDAs 84.027 & 84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2005-001**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2005 39% of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that none of the exceptions above were utilized for the items found to be in noncompliance. The District should certify the availability of funds for expenditure and also implement the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



**Auditor of State  
Betty Montgomery**

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**MEDINA CITY SCHOOL DISTRICT**

**MEDINA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 21, 2006**