

Mansfield City School District

* * *

Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Mansfield City School District
53 West Fourth Street
Mansfield, Ohio 44902

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

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

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

BETTY MONTGOMERY
Auditor of State

April 5, 2005

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MANSFIELD CITY SCHOOL DISTRICT

For the year Ended June 30, 2004

Table of Contents

	Page
Report of Independent Accountants.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	20
Statement of Fund Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	26
Notes to the Basic Financial Statements	27
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards	55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	57
Schedule of Federal Financial Assistance – CASH BASIS.....	59

MANSFIELD CITY SCHOOL DISTRICT
For the year Ended June 30, 2004
Table of Contents
(continued)

	Page
Schedule of Findings and Questioned Costs OMB Circular A-133	60
Schedule of Prior Audit Findings	62
Corrective Action Plan OMB Circular A-133 § .315(c).....	63

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 10, 2004

The Board of Education
Mansfield City School District
Mansfield, Ohio

INDEPENDENT AUDITOR'S REPORT

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

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

As explained in Note 2G to the financial statements, the District has excluded accumulated depreciation from the Statement of Net Assets and depreciation expense from the Statement of Activities for the capital assets of governmental activities. As a result, the Statement of Net Assets reports the governmental activities capital assets at gross value instead of net of accumulated depreciation. The Statement of Activities does not include any depreciation expense for the governmental activities capital assets. We were not able to determine the effect on the financial statements.

In our opinion, except for the matter discussed in the preceding paragraph, 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 Mansfield City School District, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004, on our consideration of Mansfield City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$55.1 million in revenue or 79% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$14.7 million or 21% of total revenues of \$69.8 million.
- Total program expenses were \$68.2 million in governmental activities.
- In total, net assets increased \$1.7 which represents a increase of 2.3%
- Outstanding debt decreased from \$21,809,802 to \$20,719,802 through the payment of bond principal.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Mansfield City School District, the general and permanent improvement capital projects funds 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 the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

In the Statement of Net Assets and the Statement of Activities, the School District's activities are classified as governmental:

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

The government-wide financial statements begin on page 13.

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, debt service fund, and the permanent improvement capital projects fund.

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

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

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

The governmental fund financial statements begin on page 16.

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

Proprietary Funds - The School District maintains an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 22.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used to proprietary funds.

The fiduciary fund financial statements begin on page 25.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 27.

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

The School District as a Whole

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

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

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 63,144,851	\$ 77,100,039
Capital Assets	62,749,757	49,114,660
Total Assets	125,894,608	126,214,699
Liabilities		
Long-Term Liabilities	20,701,592	21,662,102
Other Liabilities	30,053,004	31,107,718
Total Liabilities	50,754,596	52,769,820
Net Assets		
Invested in Capital		
Assets Net of Debt	43,440,041	27,303,510
Restricted	25,044,803	33,795,312
Unrestricted (Deficit)	6,655,168	12,346,057
Total Net Assets	\$ 75,140,012	\$ 73,444,879

Total assets of the School District's governmental activities decreased by \$.3 million. An increase of approximately \$13.6 million in total capital assets reflects additional construction in progress. Total liabilities decreased by \$2 million.

The net assets of the School District's governmental activities increased \$1.7 or 2.3%.

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

Table 2 shows the changes in net assets for fiscal year 2004 compared to fiscal year 2003.

(Table 2)
Governmental Activities

	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 2,414,083	\$ 1,739,308
Operating Grants	12,322,332	11,126,219
Capital Grants	0	49,000
<i>General Revenue:</i>		
Property Taxes	22,826,537	20,548,878
Grants and Entitlements	31,116,302	25,182,801
Other	1,203,410	2,193,672
<i>Total Revenues</i>	69,882,664	60,839,878
Program Expenses		
Instruction	36,712,212	32,355,924
Support Services	25,259,103	23,347,687
<i>Operation of Non-Instructional:</i>		
Community Services	755,059	673,536
Lunchroom	2,590,577	2,384,903
Uniform Supplies	203,492	158,139
Adult Education	544,432	649,136
Extracurricular Activities	961,088	911,032
Interest and Fiscal Charges	1,161,568	1,290,239
<i>Total Expenses</i>	68,187,531	61,770,596
<i>Increase (Decrease) in Net Assets</i>	\$ 1,695,133	\$ (930,718)

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

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$67.7 million and expenditures of \$68.2 million.

(Table 3)
Governmental Activities

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:	\$ 36,712,212	\$ 28,873,562	\$ 32,355,924	\$ 25,504,398
Support Services:				
Pupil and Instructional Staff	7,842,362	5,534,194	7,262,916	5,668,607
Board of Education, Administration				
Fiscal and Business	6,263,389	5,750,417	6,203,832	5,901,825
Operation and Maintenance of Plant	7,493,984	7,474,455	6,590,977	6,498,479
Pupil Transportation and Central	3,659,368	3,603,327	3,289,962	3,238,682
Operation of Non-Instructional	4,093,560	456,866	3,865,714	258,194
Extracurricular Activities	961,088	596,727	911,032	495,645
Interest and Fiscal Charges	1,161,568	1,161,568	1,290,239	1,290,239
	<u>\$ 68,187,531</u>	<u>\$ 53,451,116</u>	<u>\$ 61,770,596</u>	<u>\$ 48,856,069</u>
Total Expenses				

Instruction and student support services comprise 65% of governmental program expenses. Interest/fiscal charges nearly were 2%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 16% of governmental program expenses.

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

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

General Fund Budgeting Highlights

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

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

For the general fund, budget basis revenue was \$47.2 million instead of the original budget estimates of \$48.6 million. This decrease was due in part to a decrease in enrollment.

Final appropriations of \$51.8 million were \$1.6 million higher than the \$50.2 million in the original budget. Salaries, fringe benefits/health insurance, purchased services and county auditor fees (for tax collections) proved to be higher than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$62.7 million invested in land, buildings, equipment, and construction in progress. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land, Buildings and Improvements	\$ 20,131,409	\$ 20,131,409
Furniture and Equipment	1,518,599	739,558
Vehicles	1,973,678	1,646,854
Construction in Progress	39,126,071	26,596,839
Totals	\$ 62,749,757	\$ 49,114,660

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

Depreciation expense was charged to governmental funds for the food service equipment. See Note 2G and Note 23 for additional information.

The \$13.6 million increase in capital assets was attributable to additional construction in progress.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$847,761 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

Debt

At June 30, 2004, the School District had \$20,719,802 in bonds outstanding with \$1,090,000 due within one year. During fiscal year 2004, \$1,090,000 of general obligation bonds was retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2004	Governmental Activities 2003
	<u>2004</u>	<u>2003</u>
General Obligation Bonds:		
1999 Renovations	\$ 504,802	\$ 594,802
2000 Additions/Facilities	<u>20,215,000</u>	<u>21,215,000</u>
Totals	<u>\$ 20,719,802</u>	<u>\$ 21,809,802</u>

In 1999, the residents of the Mansfield City School District passed 2 bond issues providing \$24,000,000 for the construction of a new High School. One issue was for \$5,000,000 and the other was for \$17,000,000. These issues were later combined in 2002 so that a single bond debt schedule could be created. The new high school will also include an area for our vocational programs that are currently located through out the district.

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

Current Issues

The Mansfield City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was an Emergency Levy that was originally passed in 1993. This Emergency Levy has been renewed two times since that date. The last renewal of this levy was in May 2003. The residents of Mansfield City Schools also passed a continuing Permanent Improvement Levy in 1996. The Board of Education submitted a new operating levy to the residents of the district in May 2004, but the levy was defeated.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 34% of revenues for governmental activities for the Mansfield City School District in fiscal year 2004.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched longer than the four years it was originally planned for. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Mansfield City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Bart Griffith, Treasurer of Mansfield City School District, 53 West Fourth Street, Mansfield, Ohio 44902.

Mansfield City School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 33,566,588
Receivables:	
Taxes	24,287,445
Accounts	2,098
Accrued Interest	132,604
Intergovernmental	5,156,116
Depreciable Capital Assets (Net)	62,749,757
 <i>Total Assets</i>	 125,894,608
Liabilities	
Accounts Payable	900,841
Contracts Payable	1,177,979
Accrued Wages and Benefits	5,943,696
Intergovernmental Payable	1,532,314
Deferred Revenue	18,118,684
Claims Payable	925,300
Long Term Liabilities:	
Due Within One Year	1,454,190
Due Within More Than One Year	20,701,592
 <i>Total Liabilities</i>	 50,754,596
Net Assets	
Invested in Capital Assets, Net of Related Debt	43,440,041
Restricted for:	
Capital Projects	13,317,120
Debt Service	8,196,424
Other Purposes	3,531,259
Unrestricted	6,655,168
 <i>Total Net Assets</i>	 \$ 75,140,012

See accompanying notes to the basic financial statements.

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

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Current:			
Instruction:			
Regular	\$ 24,242,511	\$ 1,110,317	\$ 4,464,889
Special	8,529,144	0	2,046,776
Vocational	1,258,038	23,182	0
Adult Continuing	192,690	0	193,486
Other	2,489,829	0	0
Support Services:			
Pupils	3,219,267	463	156,096
Instructional Staff	4,623,095	840	2,150,769
Board of Education	12,238	0	0
Administration	4,155,365	0	381,895
Fiscal	1,213,083	0	131,077
Business	882,703	0	0
Operation and Maintenance of Plant	7,493,984	3,786	15,743
Pupil Transportation	1,867,653	10,065	13,362
Central	1,791,715	0	32,614
Operation of Non-Instructional Services:			
Community Services	755,059	0	879,273
Food Service Operations	2,590,577	525,370	1,695,702
Uniform Supplies	203,492	108,602	0
Adult Education	544,432	267,587	160,160
Extracurricular Activities	961,088	363,871	490
Interest and Fiscal Charges	1,161,568	0	0
<i>Total Governmental Activities</i>	\$ 68,187,531	\$ 2,414,083	\$ 12,322,332

General Revenues

Property Taxes Levied for:
General Purposes
Debt Service
Capital Outlay
Grants and Entitlements not
Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental
Activities

\$	(18,667,305)
	(6,482,368)
	(1,234,856)
	796
	(2,489,829)
	(3,062,708)
	(2,471,486)
	(12,238)
	(3,773,470)
	(1,082,006)
	(882,703)
	(7,474,455)
	(1,844,226)
	(1,759,101)
	124,214
	(369,505)
	(94,890)
	(116,685)
	(596,727)
	(1,161,568)
	<hr/>
	(53,451,116)
	<hr/>
	17,929,255
	3,815,728
	1,081,554
	31,116,302
	609,285
	594,125
	<hr/>
	55,146,249
	<hr/>
	1,695,133
	73,444,879
	<hr/>
\$	<u>75,140,012</u>

Mansfield City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Permanent Improvement	Other Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 10,006,477	\$ 7,090,067	\$ 11,729,909	\$ 3,278,981
Receivables:				
Taxes	18,727,175	4,355,910	1,204,360	0
Accounts	2,098	0	0	0
Interfund	15,000	0	0	0
Accrued Interest	132,604	0	0	0
Intergovernmental	92,848	0	2,151,177	2,912,091
<i>Total Assets</i>	<u>\$ 28,976,202</u>	<u>\$ 11,445,977</u>	<u>\$ 15,085,446</u>	<u>\$ 6,191,072</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 664,475	\$ 0	\$ 208,881	\$ 27,485
Contracts Payable	0	0	1,177,979	0
Accrued Wages and Benefits	4,921,232	0	0	1,022,464
Interfund Payable	0	0	0	15,000
Intergovernmental Payable	778,892	0	0	130,966
Deferred Revenue	16,932,637	3,938,503	3,240,129	2,203,915
<i>Total Liabilities</i>	23,297,236	3,938,503	4,626,989	3,399,830
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	1,041,887	0	4,984,414	874,778
Reserved for Tax Revenue Unavailable for Appropriation	1,794,538	417,407	115,408	0
Reserved for BWC Refunds	288,742	0	0	0
Unreserved:				
Undesignated, Unreserved Reported in:				
General Fund	2,553,799	0	0	0
Special Revenue Funds	0	0	0	1,916,464
Debt Service Fund	0	7,090,067	0	0
Capital Projects Funds	0	0	5,358,635	0
<i>Total Fund Balances</i>	<u>5,678,966</u>	<u>7,507,474</u>	<u>10,458,457</u>	<u>2,791,242</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 28,976,202</u>	<u>\$ 11,445,977</u>	<u>\$ 15,085,446</u>	<u>\$ 6,191,072</u>

See accompanying notes to the basic financial statements.

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

Total Governmental Funds		
	Total Governmental Fund Balances	\$ 26,436,139
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 32,105,434	Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	62,749,757
24,287,445		
2,098	Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	
15,000	Grants	4,355,092
132,604	Delinquent Property Taxes	3,841,408
5,156,116		8,196,500
<u>\$ 61,698,697</u>	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	535,854
\$ 900,841	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
1,177,979	General Obligation Bonds	(20,719,802)
5,943,696	Compensated Absences	(1,435,980)
15,000	Intergovernmental Payable	(622,456)
909,858		(22,778,238)
26,315,184		
35,262,558		
	<i>Net Assets of Governmental Activities</i>	<u>\$ 75,140,012</u>
6,901,079		
2,327,353		
288,742		
2,553,799		
1,916,464		
7,090,067		
5,358,635		
26,436,139		
<u>\$ 61,698,697</u>		

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

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>
Revenues:				
Taxes	\$ 17,382,056	\$ 3,725,074	\$ 1,093,879	\$ 211,017
Intergovernmental	27,543,223	428,017	2,265,812	11,939,266
Investment Income	436,637	0	151,143	21,505
Tuition and Fees	1,068,531	0	0	267,587
Extracurricular Activities	0	0	0	372,072
Charges for Services	0	0	0	633,972
Gifts and Donations	0	0	0	71,921
Miscellaneous	309,374	0	48,000	236,751
<i>Total Revenues</i>	<u>46,739,821</u>	<u>4,153,091</u>	<u>3,558,834</u>	<u>13,754,091</u>
Expenditures:				
Current:				
Instruction:				
Regular	19,415,718	0	0	4,475,906
Special	6,336,540	0	0	2,090,870
Vocational	1,199,004	0	0	20,017
Adult Continuing	0	0	0	193,798
Other	2,489,829	0	0	0
Support services:				
Pupils	2,984,468	0	0	172,465
Instructional Staff	2,447,049	0	25,406	2,039,039
Board of Education	12,238	0	0	0
Administration	3,706,311	0	0	371,933
Fiscal	990,687	78,605	23,841	104,563
Business	879,964	0	0	0
Operation and Maintenance of Plant	4,875,989	0	414,975	252,545
Pupil Transportation	1,989,158	0	46,699	28,855
Central	1,530,139	0	0	254,846
Operation of Non-Instructional Services:				
Community Services	0	0	0	856,606
Food Service Operations	0	0	0	2,531,753
Uniform Supplies	0	0	0	203,492
Adult Education	0	0	0	538,831
Extracurricular Activities	548,403	0	0	411,775
Capital Outlay	646,602	0	14,565,489	0
Debt Service:				
Principal Retirement	0	1,090,000	0	0
Interest and Fiscal Charges	0	1,161,568	0	0
<i>Total Expenditures</i>	<u>50,052,099</u>	<u>2,330,173</u>	<u>15,076,410</u>	<u>14,547,294</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(3,312,278)	1,822,918	(11,517,576)	(793,203)
Other Financing Sources (Uses):				
Proceeds from Sales of Fixed Assets	19,758	0	0	31,327
Transfers In	0	0	0	187,614
Transfers Out	(168,462)	0	0	(19,152)
<i>Total Financing Sources and (Uses)</i>	<u>(148,704)</u>	<u>0</u>	<u>0</u>	<u>199,789</u>
<i>Net Change in Fund Balance</i>	(3,460,982)	1,822,918	(11,517,576)	(593,414)
<i>Fund Balance (Deficit) at Beginning of Year (Restated)</i>	<u>9,139,948</u>	<u>5,684,556</u>	<u>21,976,033</u>	<u>3,384,656</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 5,678,966</u>	<u>\$ 7,507,474</u>	<u>\$ 10,458,457</u>	<u>\$ 2,791,242</u>

See accompanying notes to the basic financial statements.

Mansfield City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$ (13,749,054)
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$ 22,412,026	Governmental funds report capital outlays as expenditures,	
42,176,318	however, in the statement of activities, the cost of those	
609,285	assets is allocated over their estimated useful lives as	
1,336,118	depreciation expense. This is the amount by which	
372,072	depreciation exceeded capital outlay in the current period.	
633,972	Fixed Asset Additions	13,828,259
71,921	Current Year Depreciation	<u>(7,038)</u>
594,125		13,821,221
	Net effect of transactions involving sale of capital	(186,124)
68,205,837	assets are not reflected in the funds.	
	Revenues in the statement of activities that do not provide	
	current financial resources are not reported as revenues	
	in the funds.	
23,891,624	Grants	1,262,316
8,427,410	Delinquent Property Taxes	<u>414,511</u>
1,219,021		1,676,827
193,798	Repayment of bond principal is an expenditure in the governmental	
2,489,829	funds, but the repayment reduces long-term liabilities in the	
	statement of net assets.	
3,156,933	Bond Principal	<u>1,090,000</u>
4,511,494		1,090,000
12,238	Some expenses reported in the statement of net activities do not	
4,078,244	use the current financial resources and therefore, are not reported	
1,197,696	as expenditures in governmental funds.	
879,964	Compensated Absences	(164,141)
5,543,509	Pension Obligation	<u>(240,979)</u>
2,064,712		(405,120)
1,784,985	The internal service fund used by management to charge the costs	
	of insurance to individual funds is not reported in the district-wide	
856,606	statement of activities. The net revenue (expense) of internal service	
2,531,753	funds is reported with governmental activities.	<u>(552,617)</u>
203,492		
538,831		
960,178	Change in Net Assets of Governmental Activities	<u>\$ 1,695,133</u>
15,212,091		
1,090,000		
1,161,568		
82,005,976		
(13,800,139)		
51,085		
187,614		
(187,614)		
51,085		
(13,749,054)		
40,185,193		
\$ 26,436,139		

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes	\$ 16,885,272	\$ 16,417,137	\$ 17,134,047	\$ 716,910
Intergovernmental	28,375,749	27,589,048	27,492,433	(96,615)
Investment Income	1,851,327	1,800,000	1,065,803	(734,197)
Tuition and Fees	737,445	717,000	1,115,043	398,043
Miscellaneous	277,185	269,500	306,903	37,403
<i>Total Revenues</i>	<u>48,126,978</u>	<u>46,792,685</u>	<u>47,114,229</u>	<u>321,544</u>
Expenditures:				
Current:				
Instruction	28,905,509	29,829,946	29,426,003	403,943
Support Services:				
Pupils	2,941,953	3,036,236	2,941,101	95,135
Instructional Staff	2,474,199	2,553,345	2,513,978	39,367
Board of Education	21,616	22,342	12,238	10,104
Administration	4,161,327	4,294,585	4,188,926	105,659
Fiscal	924,812	954,455	923,206	31,249
Business	877,678	905,730	898,233	7,497
Operation and Maintenance of Plant	4,783,325	4,937,138	4,640,027	297,111
Pupil Transportation	2,056,789	2,123,092	1,949,868	173,224
Central	1,477,884	1,525,140	1,506,986	18,154
Extracurricular Activities	523,384	540,101	538,727	1,374
Capital Outlay	624,322	644,257	644,257	0
<i>Total Expenditures</i>	<u>49,772,798</u>	<u>51,366,367</u>	<u>50,183,550</u>	<u>1,182,817</u>
Excess of Revenues Over (Under) Expenditures	(1,645,820)	(4,573,682)	(3,069,321)	1,504,361
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	1,000	1,000	19,758	18,758
Refund of Prior Year Expenditures	144,019	144,019	247,061	103,042
Advances In	295,780	295,780	290,080	(5,700)
Advances Out	(150,000)	(150,000)	(5,200)	144,800
Transfers Out	(250,000)	(250,000)	(168,462)	81,538
<i>Total Other Financing Sources (Uses)</i>	<u>40,799</u>	<u>40,799</u>	<u>383,237</u>	<u>342,438</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,605,021)</u>	<u>(4,532,883)</u>	<u>(2,686,084)</u>	<u>1,846,799</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	11,189,305	11,189,305	11,189,305	0
Prior Year Encumbrances Appropriated	876,218	876,218	876,218	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 10,460,502</u>	<u>\$ 7,532,640</u>	<u>\$ 9,379,439</u>	<u>\$ 1,846,799</u>

See accompanying notes to the basic financial statements.

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Mansfield City School District
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
<hr/>	
Operating Revenues:	
Charges for Services	\$ 7,355,834
	<hr/>
<i>Total Operating Revenues</i>	<i>7,355,834</i>
	<hr/>
Operating Expenses:	
Purchased Services	603,886
Claims	7,304,565
	<hr/>
<i>Total Operating Expenses</i>	<i>7,908,451</i>
	<hr/>
<i>Change in Net Assets</i>	<i>(552,617)</i>
	<hr/>
<i>Net Assets (Deficit) Beginning of Year</i>	<i>1,088,471</i>
	<hr/>
<i>Net Assets (Deficit) End of Year</i>	<i>\$ 535,854</i>
	<hr/> <hr/>

See accompanying notes to the general purpose financial statements.

Mansfield City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:	
Transactions with Other Funds	\$ 7,366,582
Cash Paid for Goods and Services	(603,886)
Cash Paid for Claims	(7,437,265)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>(674,569)</i>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<i>(674,569)</i>
<i>Cash and Cash Equivalents at Beginning of Year</i>	<i>2,135,723</i>
<i>Cash and Cash Equivalents at End of Year</i>	<i>\$ 1,461,154</i>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ (552,617)
Adjustments:	
(Increase) Decrease Assets	
Accounts Receivable	10,748
Increase (Decrease) in Liabilities	
Claims Payable	(132,700)
<i>Total Adjustments</i>	<i>(121,952)</i>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ (674,569)</i>

See accompanying notes to the general purpose financial statements.

Mansfield City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 26,525	\$ 938,708
Liabilities		
Undistributed Monies	\$ 0	\$ 901,882
Due to Students	0	36,826
<i>Total Liabilities</i>	<u>\$ 0</u>	<u>\$ 938,708</u>
Net Assets		
Held in Trust for Scholarships	<u>26,525</u>	
<i>Total Net Assets</i>	<u>\$ 26,525</u>	

See accompanying notes to the basic financial statements.

Mansfield City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust
	Scholarship
Additions	\$ 0
Deductions	0
<i>Change in Net Assets</i>	0
<i>Net Assets Beginning of Year</i>	26,525
<i>Net Assets End of Year</i>	\$ 26,525

See accompanying notes to the basic financial statements.

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

Note 1 – Description of the School District

The Mansfield City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2003, was 5,936. The School District employs 562 certificated and 312 non-certificated employees.

Reporting Entity

The reporting entity is required to be composed 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 Mansfield City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The 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 obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

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

B. Fund Accounting

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

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

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

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

Debt Service Fund The debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds used for building improvement.

Permanent Improvement Capital Projects Fund The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. Proprietary funds are classified as internal service.

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

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

C. Measurement Focus

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

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

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

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to, repurchase agreements, U.S. government securities, and STAROhio, (the State Treasurer's Investment Pool).

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

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$609,285, which includes \$259,664 assigned from other School District funds.

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

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 23 for additional information regarding set asides.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are required to be depreciated using a depreciation method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	10 - 40 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	13 Years
Textbooks	5 Years

The District is not following generally accepted accounting principles which requires accumulated depreciation to be reported in the Statement of Net Assets and depreciation expense in the Statement of Activities for capital assets of governmental activities. The School District has reported accumulated depreciation and depreciation expense for the food service equipment only.

H. 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.

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

I. Compensated Absences

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

Sick leave benefits are accrued through the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those, the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

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

J. Accrued Liabilities and Long-term Obligations

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

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

K. Net Assets

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

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

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

L. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes, textbook purchases, 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 required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education classes, sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

N. Contributions of Capital

Contributions of capital in proprietary fund financial statements are recorded as nonoperating revenue and arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during the current fiscal year.

O. Interfund Activity

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

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

P. Extraordinary and Special Items

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

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

Q. Estimates

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

R. Budgetary Data

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

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

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

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by

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

fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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

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

Note 3 – Restatement of Fund Balance/Net Assets

Upon review of the enterprise funds, it was determined that the charges for services generated by the programs were not sufficient to cover the costs of operation. Additionally, there was no debt pledged solely by net revenues from fees and charges nor were there any laws or regulations requiring costs be recovered through fees and charges. Therefore, the School District has determined that the Special Revenue Fund Type is a more appropriate classification for these activities. Accordingly, effective July 1, 2003, the entire Enterprise Fund Type has been eliminated and reclassified to the Special Revenue Fund Type.

As a result, balances have been restated as follows:

	Governmental Activities	Business-Type Activities	Enterprise Funds
<u>Statement of Net Assets</u>			
Total Net Assets June 30, 2003	\$ 72,285,044	\$ 1,159,835	\$ 1,159,835
Reclassification of Enterprise Funds	1,159,835	(1,159,835)	(1,159,835)
Restated Total Net Assets June 30, 2003	<u>\$ 73,444,879</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	Total Governmental Funds
<u>Balance Sheet - Governmental Funds</u>	
Fund Balance June 30, 2003	\$ 39,062,195
Reclassification of Enterprise Funds - Assets	1,371,405
Reclassification of Enterprise Funds - Liabilities	(248,407)
Restated Total Net Assets June 30, 2003	\$ 40,185,193

This change had the following effect on 2004 Revenues, Expenses/Expenditures, and Changes in Net Assets/Excess of Revenues over Expenditures:

- Governmental Activities revenues and expenses of \$2,816,094 and \$3,338,501, respectively are related to Enterprise Fund activity which was previously classified and as Enterprise Fund Type. This represents (\$522,407) of reported change in net assets.
- Total Governmental Fund revenues and expenditures of \$2,816,094 and \$3,274,076, respectively are related to Enterprise Fund activity which was previously classified as an Enterprise Fund Type. This represents (\$457,982) of the reported Excess of Revenues over Expenditures.

Note 4 – Fund Deficits

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

	Fund Balance	Net Assets
Nonmajor Governmental Funds:		
Teacher Development	\$ 42,322	\$ 36,031
Public Preschool	141	486
DPIA	7,617	14,388
Vocational Enhancement	1,744	1,902
Alternative School	40,794	43,922
Title VI-B	100,579	95,815
Drug Free Grant	17,103	11,856
Preschool Handicapped	1,402	1,710

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

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

Note 5 – Net Assets Restricted for Other Purposes

Net assets restricted for other purposes consisted of the following:

	<u>June 30, 2004</u>
Nonmajor Governmental Special Revenue Funds	<u>\$ 3,531,259</u>

Note 6 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (3,460,982)
Net Adjustment for Revenue Accruals	621,469
Advance In	290,080
Net Adjustment for Expenditure Accruals	928,309
Advance Out	(5,200)
Adjustment for Encumbrances	<u>(1,059,760)</u>
Budget Basis	<u>\$ (2,686,084)</u>

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

Note 7 - Deposits and Investments

State statutes classify monies held by the District into three categories:

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

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

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

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

Interim monies 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 principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding thirty days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (StarOhio);

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

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

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

Cash on Hand At year end, the School District had \$1,744 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

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

Deposits At fiscal year-end, the carrying amount of the School District's deposits was (\$907,806) and the bank balance was \$8,437. Of the bank balance:

1. \$8,437 of the bank balance was covered by depository insurance; and
2. None was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the School District's name.

Statutory provisions require that all securities acquired by the School District be held by the School District treasurer or deposited with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterpart is a designated depository of the School District for the current period of designation of depositories, in which case the securities may be held in trust by the depository.

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

	Category 3	Carrying and Fair Value
Repurchase Agreement	\$ 551,012	\$ 551,012
U. S. Government Securities	26,634,720	26,634,720
Investment in State Treasurer's Investment Pool		8,252,151
		\$ 35,437,883

The classification of cash and cash equivalents, and investments on the combined basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 34,531,821	\$ 0
U.S. Treasury Obligations and U.S. Agency Issues	(26,634,720)	26,634,720
Repurchase Agreement	(551,012)	551,012
State Treasurer's Pool	(8,252,151)	8,252,151
Petty Cash	(1,744)	0
GASB Statement No. 3	\$ (907,806)	\$ 35,437,883

Note 8 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. The Richland County Auditor is responsible for assessing and remitting these property taxes to the School District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Richland County Auditor reappraises real property every six years with a triennial update, which was last completed for 2002. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Richland County, real property taxes are billed semi-

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

annually, one year in arrears. The tax rate applied to real property collected in 2004 before certain homestead and rollback reductions, which reductions are reimbursed to the School District by the State of Ohio, amounted to \$66.05 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$41.33 per \$1,000 of assessed valuation for residential and agricultural real property, and \$50.67 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2003 was \$66.05 per \$1,000 of valuation.

The property valuation consisted of:

Real Property - 2003	
Residential/Agricultural	\$ 283,085,180
Commercial/Industrial	109,064,970
Public Utilities	92,160
Tangible Personal Property - 2004	
General	74,307,205
Public Utilities	23,092,470
	\$ 489,641,985

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The late settlement and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2004, was \$2,327,353 and is recognized as revenue. \$1,794,538 was available to the general fund, \$417,407 was available to the bond retirement debt service fund and \$115,408 was available to 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.

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

Note 9 - Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (fees), intergovernmental grants, and interest. 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 fiscal year guarantee of federal funds.

Note 10 - Capital Assets

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

	Restated Balance 6/30/03	Additions	Reductions	Balance 6/30/04
Governmental Activities				
<i>Capital Assets</i>				
Land, Buildings, and Improvements	\$ 20,131,409	\$ 0	\$ 0	\$ 20,131,409
Furniture and Equipment	862,001	972,203	(186,124)	1,648,080
Vehicles	1,646,854	326,824	0	1,973,678
Construction in Progress	26,596,839	12,529,232	0	39,126,071
Total Capital Assets, being depreciated	49,237,103	13,828,259	(186,124)	62,879,238
Less Accumulated Depreciation:				
Buildings and Improvements	0	0	0	0
Furniture and Equipment	(122,443)	(7,038)	0	(129,481)
Vehicles	0	0	0	0
Total Accumulated Depreciation	(122,443)	(7,038)	0	(129,481)
Total Capital Assets being depreciated, net	49,114,660	13,821,221	(186,124)	62,749,757
Governmental Activities Capital Assets, Net	\$ 49,114,660	\$ 13,821,221	\$ (186,124)	\$ 62,749,757

Depreciation expense was charged to governmental funds for the food service equipment. See Note 2G and Note 22 for additional information.

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

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with Coregis Insurance Company. The deductible is \$10,000 per incident on property and \$10,000 per incident on equipment. All vehicles are also insured with Utica National Insurance Company and have a \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy with Nationwide Insurance Company. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per year, with a \$5,000,000 umbrella. The board members and superintendent have a \$20,000 position bond with Nationwide Insurance Company.

The treasurer is covered under a bond in the amount of \$200,000 provided by the Cincinnati Insurance Company.

B. Workers' Compensation

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

C. Employee Medical Benefits

The School District has established a limited risk management program for hospital/medical benefits. Premiums are paid into the Self-Insurance Fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program. During fiscal year 2004, a total expense of \$7,908,451 was incurred in benefits and administrative costs. An excess coverage insurance policy covers individual claims in excess of \$150,000. The liability for unpaid claims cost of \$925,300 reported in the fund at June 30, 2004 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Interfund premiums are based primarily upon the insured fund's claims experience and are reported as quasi-external interfund transactions.

The School District's claim settlements exceeded insurance coverage for each of the past two years.

Changes in the fund's claims liability amount in 2003 and 2004 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$ 755,600	\$ 7,033,944	\$ 6,731,544	\$ 1,058,000
2004	\$ 1,058,000	\$ 7,304,565	\$ 7,437,265	\$ 925,300

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

Note 12 - Other Employee Benefits

A. Compensated Absences

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

Teachers and classified staff earn sick leave at the rate of one and one-fourth days per month. Classified staff may accumulate up to 255 days of unused sick time if hired before 9/1/93, or 180 days if hired subsequent to 9/1/93. Certified staff may accumulate up to 255 unused sick days if hired before 1/1/96 and 190 days if hired subsequent to 1/1/96. Upon retirement, qualified classified employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 43 days. Certified employees receive 23% of their accumulated unused sick leave upon retirement.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees in the amount of \$40,000 per employee.

Note 13- Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% 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 to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,073,772, \$1,031,148, and, \$1,020,396, respectively; 48% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$554,759 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability within the respective funds.

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

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$4,164,557, \$4,058,136, and, \$4,151,208. Contributions to the DC and Combined Plans for fiscal year 2004 were \$9,937 made by the School District and \$41,276 made by the plan members. 83% of the contributions have been made for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$672,064 represents the unpaid contribution for fiscal year 2003, and is recorded as a liability within the respective funds.

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

C. Social Security System

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

Note 14 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$301,126 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, the health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Retirees whose household income falls below federal poverty levels receive a 50% premium reduction. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$562,800.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets

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

available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

Note 15 - Long - Term Obligations

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

	Outstanding Restated 6/30/2003	Additions	Reductions	Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
5.27%, due 9/2011	\$ 594,802	\$ 0	\$ 90,000	\$ 504,802	\$ 90,000
5.67%, due 12/2027	21,215,000	0	1,000,000	20,215,000	1,000,000
Total General Obligation Bonds	21,809,802	0	1,090,000	20,719,802	1,090,000
Compensated Absences	1,271,839	512,796	348,655	1,435,980	364,190
Total Governmental Activities Long-Term Liabilities	<u>\$ 23,081,641</u>	<u>\$ 512,796</u>	<u>\$ 1,438,655</u>	<u>\$ 22,155,782</u>	<u>\$ 1,454,190</u>

In 1999, the School District issued \$874,802 in general obligation bonds for a new high school. The bonds mature in September 2011.

In 2000, the School District issued \$24,295,000 in general obligation bonds for a new high school. The bonds mature in December 2027.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from General Fund and Special Trust, Auxiliary Services, Adult Basic Education, Title VI-B, Vocational Education, Title I, Drug Free grant, Food Service, and Adult Education nonmajor governmental funds.

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Total
	Principal	Interest	
2005	\$ 1,090,000	\$ 1,108,403	\$ 2,198,403
2006	1,090,000	1,055,898	2,145,898
2007	1,085,000	1,003,168	2,088,168
2008	1,080,000	943,583	2,023,583
2009	1,080,000	877,283	1,957,283
2010 - 2014	5,079,802	3,660,137	8,739,939
2015 - 2019	5,000,000	2,188,565	7,188,565
2020 - 2024	4,245,000	801,271	5,046,271
2025 - 2028	970,000	110,975	1,080,975
Total	<u>\$ 20,719,802</u>	<u>\$ 11,749,283</u>	<u>\$ 32,469,085</u>

Note 16 – Deferred Revenue

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

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 18,118,684	\$ 21,960,092
Grants Receivable	<u>0</u>	<u>2,203,915</u>
Deferred Revenue	<u>\$ 18,118,684</u>	<u>\$ 24,164,007</u>

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

Note 17 - Interfund Transfers

Transfers made during fiscal year 2004 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 168,462
Special Trust	8,000	0
Uniform Supplies	110,460	0
Adult Education	50,000	0
Other Grants	19,154	0
Title I	0	19,152
	<u>0</u>	<u>19,152</u>
Total	<u>\$ 187,614</u>	<u>\$ 187,614</u>

These transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Note 18 - Interfund Balances

Interfund balances at June 30, 2004 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 15,000	\$ 0
Nonmajor Governmental Funds	0	15,000
	<u>\$ 15,000</u>	<u>\$ 15,000</u>

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund payables outstanding are anticipated to be repaid in fiscal year 2005.

Note 19 - Insurance Purchasing Pool

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

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

Note 20 – Contingencies

A. Grants

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

B. Litigation

The School District is party to legal proceedings. The School District's management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

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

Note 21 – Contractual Commitments –

As of June 30, 2004, the District had contractual purchase commitments as follows:

	Contractual Commitment	Expended	Balance 6/30/2004
New High School:			
Marr, Knapp and Crawfis - Architectural	\$ 2,727,621	\$ 2,646,163	\$ 81,458
BBC&M Engineering	38,850	24,374	14,476
Brickler & Eckler	6,469	6,465	4
C & T Design	499,383	343,510	155,873
CTL Engineering	200,000	150,437	49,563
Fortney & Weygandt	6,393,133	6,184,519	208,614
Guenther Mechanical	6,534,929	6,403,544	131,385
Key Blue Prints	151,706	62,871	88,835
Lakeside Blue Prints	40,000	31,118	8,882
Lawhon & Associates	63,825	33,395	30,430
Mansfield Brick	147,000	107,604	39,396
Mark Schaffer	2,783,782	2,332,914	450,868
Metal Mark	1,683,905	1,521,291	162,614
Vaughn Industries	4,486,870	4,363,114	123,756
Vulcan Enterprises	487,142	459,053	28,089
Additional High School Projects:			
Adena Corporation	732,504	293,584	438,920
Dore & Associates	716,400	0	716,400
Sound Com Systems	358,710	0	358,710
Thomas Ruff, Co.	771,000	139,895	631,105
Sabre Demolition	616,584	520,101	96,483
Malabar Farm:			
Settle Muter Electric	159,770	79,942	79,828
Lake Erie Electric	502,572	84,936	417,636
	<u>\$ 30,102,155</u>	<u>\$ 25,788,830</u>	<u>\$ 4,313,325</u>

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

Note 22 - Depreciation

Since the School District has implemented GASB No. 34, capital assets of all funds are required to be depreciated over their useful life. Due to inadequate capital assets records of the District, we have chosen to omit the accumulated depreciation and depreciation expense for the Governmental Activities in this financial statement. As a result of this misstatement, the District's Change in Net Assets is overstated in the Statement of Activities and the District's Depreciable Capital Assets (Net) is overstated on the Statement of Net Assets. The dollar effect of these omissions cannot be determined.

Note 23 - 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The statute includes specific purposes for which the monies representing BWC refunds can be used. The monies which do not represent BWC refunds may be left in the budget reserve set-aside, or returned to the General fund and used at the discretion of the of the District's Board of Education.

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 288,742	\$ 0	\$ 0	\$ 288,742
Set-Aside Carryover Balance as of June 30, 2003	0	0	(2,915,119)	(2,915,119)
Current Year Set-Aside Requirement	0	847,671	847,671	1,695,342
Qualifying Disbursements	0	(1,818,685)	(1,315,391)	(3,134,076)
Total	<u>\$ 288,742</u>	<u>\$ (971,014)</u>	<u>\$ (3,382,839)</u>	<u>\$ (4,065,111)</u>
Cash Balance Carried Forward FY 2005	<u>\$ 288,742</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 288,742</u>
Amount for Set-Asides				<u>\$ 288,742</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$288,742.

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

Note 24 – State School Funding Decision

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

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 10, 2004

The Board of Education
Mansfield City School District
Mansfield, Ohio 44902

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mansfield City School District, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, and have issued our qualified report, due to capital assets not being depreciated, thereon dated December 10, 2004. We have conducted our audit in accordance with auditing standards in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mansfield City School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Mansfield City School District in a separate letter dated December 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mansfield City School District, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Mansfield City School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition, item 2004-1 above, to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Mansfield City School District, in a separate letter dated December 10, 2004.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 10, 2004

The Board of Education
Mansfield City School District
Mansfield, Ohio 44901

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

Compliance

We have audited the compliance of Mansfield City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Mansfield City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mansfield City School District's management. Our responsibility is to express an opinion on Mansfield City School 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 Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mansfield City School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mansfield City School District's compliance with those requirements.

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

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mansfield City School District, as of and for the year ended June 30, 2004, and have issued our qualified report, due to capital assets not being depreciated, thereon dated December 10, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District’s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Mansfield City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

MANSFIELD CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Federal Receipts	Federal Disbursements	Non-Cash Transactions
U. S. Department of Education (Passed Through Ohio Department of Education):				
Carl Perkins Grant	84.048	\$ 32,972	\$ 31,199	\$ 0
	84.048	210,848	166,360	0
Total Perkins Grant		243,820	197,559	0
Adult Basic Education	84.002	4,400	14,134	0
	84.002	0	5,611	0
	84.002	0	2,262	0
	84.002	35,431	31,599	0
	84.002	29,639	29,639	0
	84.002	106,553	197,584	0
Total Adult Basic Education		176,023	280,829	0
Title I	84.010	116,697	403,917	0
	84.010	(4,397)	0	0
	84.010	38,810	73,397	0
	84.010	74,759	56,508	0
	84.010	2,162,993	2,027,838	0
	84.010	130,951	114,635	0
Total Title I		2,519,813	2,676,295	0
Title V	84.298	(5,100)	15,375	0
	84.298	36,372	34,718	0
Total Title V		31,272	50,093	0
Special Education Cluster: Title VI-B	84.027	118,599	184,330	0
	84.027	18,067	26,124	0
	84.027	995,857	913,115	0
	84.027	14,616	17,859	0
Early Childhood	84.173	1,933	1,487	0
	84.173	47,784	44,982	0
Total Special Education Cluster		1,196,856	1,187,897	0
Title IV-SDFSC	84.186	16,323	19,906	0
	84.186	48,841	48,357	0
Total Title IV-SDFSC		65,164	68,263	0
Teaching American History	84.215	302,229	317,908	0
Even Start Family Literacy	84.213	78,934	135,419	0
	84.213	107,843	85,976	0
Total Even Start Family Literacy		186,777	221,395	0
Title II-A	84.367	4,147	63,231	0
	84.367	361,450	298,951	0
Total Title II-A		365,597	362,182	0
Title II-D	84.318	42,493	54,726	0
	84.318	39,743	6,870	0
Total Title II-D		82,236	61,596	0
Assistive Technology	84.352	(54)	4,070	0
	84.352	(157)	9,603	0
Total Assistive Technology		(211)	13,673	0
Comprehensive School Reform	84.332	34,588	29,663	0
Student Intervention	93.558	470,430	0	0
Emergency School Repair	84.352	332,121	233,001	0
SADF Community Service	84.184	55,629	54,228	0
	84.184	17,514	21,642	0
Total SADF Community Service		73,143	75,870	0
Smaller Learning Communities	84.215	4,319	7,227	0
Advanced Placement Testing	84.330	200	200	0
Impact Aid	84.041	1,534	1,534	0
Total Department of Education		6,085,911	5,785,185	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):				
Nutrition Cluster:				
Food Distribution Program (A)	10.550	335,450	0	335,450
School Breakfast Program (B)	10.553	383,277	383,277	0
National School Lunch Program (B)	10.555	1,240,565	1,240,565	0
Total Department of Agriculture: Nutrition Cluster		1,959,292	1,623,842	335,450
U. S. Health and Human Services (Passed Through Ohio Department of MRDD):				
Medical Assistance Program/CAFS	93.778	287,795	287,795	0
Total U.S. Health and Human Services		287,795	287,795	0
Total Federal Assistance		<u>\$ 8,332,998</u>	<u>\$ 7,696,822</u>	<u>\$ 335,450</u>

(A) Government commodities are reported at the fair market value of the commodities received and disbursed.

(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**MANSFIELD CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS		
(d) (1) (i)	Type of Financial Statement Opinion	Qualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a)?	No
(d) (1) (vii)	Major Programs (list):	Nutrition Cluster - 10.55* Title II-A - 84.367 Teaching American History - 84.215
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

2004-1 - New Governmental Reporting Model

The Governmental Accounting Standard Board (GASB) has issued GASB #34 the New Financial Reporting Model. Mansfield City School District has implemented the reporting model for the fiscal year ended June 30, 2003.

Under the new reporting model, the School District is required to continue to depreciate enterprise property and equipment. In addition, the School District is now required to depreciate general governmental property and equipment. To depreciate the general governmental property and equipment, the School District must have an accurate property and equipment ledger that reconciles to the financial statement. During testing of property and equipment, it was determined that the School District does not have adequate records to ensure an accurate property and equipment listing. Without adequate records of the School District's capital assets, the School District cannot prepare statements in accordance with the new reporting model.

We recommend the School District make an concerted effort to ensure property records are complete and accurate.

**MANSFIELD CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2004
Page 2**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None were noted.

MANSFIELD CITY SCHOOL DISTRICT
 SCHEDULE OF PRIOR AUDIT FINDINGS
 June 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-1	The district does not have adequate property records. See the Schedule of Findings and Questioned Costs for details.	No, the district is to have the problem corrected by June 30, 2005.	Not Corrected

MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 .315 (c)
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-1	The District intends to obtain a valuation report for their capital assets once the new high school is completed and the students are in the appropriate buildings.	June 30, 2005	Bart Griffith, Treasurer



**Auditor of State
Betty Montgomery**

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MANSFIELD CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**