

# **Minerva Local School District**

*Audited Financial Statements*

*June 30, 2005*





**Auditor of State  
Betty Montgomery**

Board of Education  
Minerva Local School District  
401 North Market St.  
Minerva, OH 44657

We have reviewed the *Independent Auditor's Report* of the Minerva Local School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

January 12, 2005

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**MINERVA LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**JUNE 30, 2005**

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**MINERVA LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**JUNE 30, 2005**

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Rea & Associates, Inc.  
ACCOUNTANTS AND BUSINESS CONSULTANTS

December 19, 2005

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

**Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Minerva Local School District (the "School District"), Stark County, Ohio as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we also have issued our report dated December 19, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form 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 additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Hea & Associates, Inc.*



**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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The discussion and analysis of the Minerva Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$14,783,399 in revenue or 81.8 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$3,276,586 or 18.2 percent of total revenues of \$18,059,985.
- Total program expenses were \$20,086,954.
- In total, net assets decreased \$2,026,969, which represents a 109.4 percent decrease from 2004.
- Outstanding bond and note debt decreased from \$13,895,421 to \$13,709,232 through principal payments.

***Using this Annual Report***

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

***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

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

A question typically asked about the School District's finances "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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

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

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

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

*Fund Financial Statements*

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

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

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

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

The governmental fund financial statements begin on page 13.

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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

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

**The School District as a Whole**

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

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

**(Table 1)**  
**Net Assets**

	Governmental Activities	
	2005	Restated 2004
<b>Assets</b>		
Current and Other Assets	\$ 8,609,182	\$ 15,070,435
Capital Assets	14,974,937	10,806,866
Total Assets	23,584,119	25,877,301
<b>Liabilities</b>		
Long-Term Liabilities	15,108,556	15,201,416
Other Liabilities	8,649,942	8,823,295
Total Liabilities	23,758,498	24,024,711
<b>Net Assets</b>		
Invested in Capital Assets Net of Debt	1,170,601	2,938,225
Restricted	1,858,424	1,332,243
Unrestricted (Deficit)	(3,203,404)	(2,417,878)
Total Net Assets	\$ (174,379)	\$ 1,852,590

Total assets decreased by \$2,293,182. An increase of approximately \$4,168,071 in total capital assets reflects additional purchases exceeding depreciation. Other assets decreased by \$6,461,253. This was primarily due to the fact that investments were used to retire bond anticipation notes. Total liabilities decreased by \$266,213. This decrease was the result of reductions in accounts payable and contracts payable.

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**(Table 2)**  
**Governmental and Business-Type Activities**

	Governmental Activities	Governmental Activities
	2005	2004
<i><b>Revenues</b></i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,280,837	\$ 1,207,249
Operating Grants	1,975,215	1,543,794
Capital Grants	20,534	0
<i>General Revenue:</i>		
Property Taxes	6,175,687	6,002,711
Grants and Entitlements	8,430,219	8,856,397
Other	177,493	421,805
<i>Total Revenues</i>	18,059,985	18,031,956
<i><b>Program Expenses</b></i>		
Instruction	11,392,948	9,604,063
Support Services	6,578,445	5,494,777
Operation of Non-Instructional	757,578	735,131
Extracurricular Activities	584,046	579,030
Interest and Fiscal Charges	773,937	764,940
<i>Total Expenses</i>	20,086,954	17,177,941
Increase (Decrease) in Net Assets	\$ (2,026,969)	\$ 854,015

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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**Governmental Activities**

Information about the School District's major funds starts on page 13.

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

**(Table 3)**  
**Governmental Activities**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 11,392,948	\$ 9,172,183	\$ 9,604,063	\$ 8,238,046
Support Services:				
Pupil and Instructional Staff	2,281,290	2,244,495	1,920,482	1,593,444
Board of Education, Administration, Fiscal and Business	1,964,947	1,866,506	1,784,348	1,669,121
Operation and Maintenance of Plant	1,177,384	1,177,384	871,000	818,853
Pupil Transportation	959,401	938,867	893,207	850,262
Central	195,423	191,423	25,740	18,403
Operation of Non-Instructional	757,578	121,611	735,131	113,247
Extracurricular Activities	584,046	323,962	579,030	360,582
Interest and Fiscal Charges	773,937	773,937	764,940	764,940
Total Expenses	<u>\$ 20,086,954</u>	<u>\$ 16,810,368</u>	<u>\$ 17,177,941</u>	<u>\$ 14,426,898</u>

Instruction and student support services comprise 68 percent of governmental program expenses. Interest/fiscal charges were 3.9 percent. Interest expense was attributable to the outstanding bonds and lease payments. Pupil transportation and the operation/maintenance of facilities accounts for 10.6 percent of governmental program expenses.

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

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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***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 2005, the School District amended its general fund budget one time. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$15,413,308, under the original budget estimates of \$15,617,381. Of this \$204,073 decrease, most was attributable to a decrease in property tax revenue.

Final appropriations of \$15,465,274 were \$11,267 lower than the \$15,476,541 in the original budget.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2005, the School District had \$14,974,937 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 127,797	\$ 127,797
Buildings and Improvements	13,514,183	1,776,348
Furniture and Equipment	1,010,862	832,724
Vehicles	322,095	321,687
Construction in Progress	0	7,748,310
Totals	\$ 14,974,937	\$10,806,866

The \$4,168,071 increase in capital assets was attributable to additional purchases exceeding depreciation.

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital acquisitions and an additional 3 percent for textbooks. For fiscal year 2005, this amounted to \$302,970 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital acquisition. For the textbooks, the School District disbursed \$319,200.

**Debt**

At June 30, 2005, the School District had \$13,709,232 in bonds and notes outstanding with \$254,792 due within one year. During fiscal year 2005, \$229,070 of general obligation bonds and notes were retired. Table 5 summarizes bonds outstanding.

**(Table 5)**  
**Outstanding Debt, at June 30**

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Energy Notes	\$ 91,261	\$ 120,331
General Obligation Bonds:		
Various Series Bonds	13,205,000	13,405,000
Various Capital Appreciation Bonds	294,998	294,998
Accretion on Capital Appreciation Bonds	<u>117,973</u>	<u>75,092</u>
Total General Obligation Bonds	<u>13,617,971</u>	<u>13,775,090</u>
Totals	<u><u>\$ 13,709,232</u></u>	<u><u>\$ 13,895,421</u></u>

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

***Current Issues***

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

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

**Minerva Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*

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Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 33 percent of revenues for governmental activities for the Minerva Local School District in fiscal year 2005.

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

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

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

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

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

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michael Pence, Treasurer of Minerva Local School District, 401 North Market St., Minerva, Ohio 44657 or [mcp1@minerva.stark.k12.oh.us](mailto:mcp1@minerva.stark.k12.oh.us).



**MINERVA LOCAL SCHOOL DISTRICT***Statement of Net Assets**June 30, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,039,848
Taxes	6,372,844
Accounts	1,973
Intergovernmental	130,425
Prepaid Items	10,286
Inventory Held For Resale	27,016
Materials and Supplies	26,790
Noncurrent Assets:	
Nondepreciable Capital Assets	127,797
Depreciable Capital Assets (Net)	14,847,140
	<hr/>
<i>Total Assets</i>	<u>23,584,119</u>
<b>Liabilities</b>	
Accounts Payable	37,770
Contracts Payable	111,497
Accrued Wages and Benefits	1,935,618
Vacation Payable	29,152
Accrued Interest	55,943
Intergovernmental Payable	441,564
Matured Compensated Absences Payable	61,701
Deferred Revenue	5,830,977
Claims Payable	125,720
Early Retirement Incentive Payable	20,000
Long Term Liabilities:	
Due Within One Year	308,095
Due Within More Than One Year	14,800,461
	<hr/>
<i>Total Liabilities</i>	<u>23,758,498</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	1,170,601
Restricted for:	
Capital Projects	1,211,593
Debt Service	479,406
Other Purposes	97,319
Set Asides	70,106
Unrestricted	(3,203,404)
	<hr/>
<i>Total Net Assets</i>	<u>\$ (174,379)</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2005*

	Program Revenues			Capital Grants and Contributions	Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$ 9,382,843	\$ 718,316	\$ 166,227	\$ 0	\$ (8,498,300)
Special	1,929,437	0	1,336,222	0	(593,215)
Vocational	76,317	0	0	0	(76,317)
Adult continuing	4,351	0	0	0	(4,351)
Support services:					
Pupils	1,380,932	3,270	20,585	0	(1,357,077)
Instructional staff	900,358	0	12,940	0	(887,418)
Board of education	67,806	0	0	0	(67,806)
Administration	1,362,547	0	6,794	0	(1,355,753)
Fiscal	455,674	0	91,647	0	(364,027)
Business	78,920	0	0	0	(78,920)
Operation and maintenance of plant	1,177,384	0	0	0	(1,177,384)
Pupil transportation	959,401	0	0	20,534	(938,867)
Central	195,423	0	4,000	0	(191,423)
Operation of non-instructional services:					
Food Service Operation	707,097	309,817	296,549	0	(100,731)
Community Services	50,481	0	29,601	0	(20,880)
Extracurricular activities	584,046	249,434	10,650	0	(323,962)
Debt service:					
Interest and fiscal charges	773,937	0	0	0	(773,937)
<b>Total Governmental Activities</b>	<b>\$ 20,086,954</b>	<b>\$ 1,280,837</b>	<b>\$ 1,975,215</b>	<b>20,534</b>	<b>(16,810,368)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					5,411,998
Debt Service					763,689
Grants and Entitlements not Restricted to Specific Programs					8,430,219
Investment Earnings					103,160
Miscellaneous					74,333
Total General Revenues					14,783,399
Change in Net Assets					(2,026,969)
Net Assets Beginning of Year (Restated)					1,852,590
Net Assets End of Year					\$ (174,379)

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

**MINERVA LOCAL SCHOOL DISTRICT**

*Balance Sheet  
Governmental Funds  
June 30, 2005*

	General	Bond Retirement	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 23,266	\$ 468,517	\$ 1,323,562	\$ 150,357	\$ 1,965,702
Cash and Cash Equivalents:					
Restricted Cash	70,106	0	0	0	70,106
Taxes	5,608,103	764,741	0	0	6,372,844
Accounts	991	0	0	982	1,973
Interfund	1,024	0	0	0	1,024
Accrued Interest					0
Intergovernmental	45,619	0	0	84,806	130,425
Prepaid Items	10,286	0	0	0	10,286
Inventory Held For Resale	0	0	0	27,016	27,016
Materials and Supplies	26,790	0	0	0	26,790
<i>Total Assets</i>	<u>\$ 5,786,185</u>	<u>\$ 1,233,258</u>	<u>\$ 1,323,562</u>	<u>\$ 263,161</u>	<u>\$ 8,606,166</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 31,280	\$ 0	\$ 472	\$ 6,018	\$ 37,770
Contracts Payable	0	0	111,497	0	111,497
Accrued Wages and Benefits	1,800,568	0	0	135,050	1,935,618
Interfund Payable	185,000	0	0	1,024	186,024
Intergovernmental Payable	404,302	0	0	37,262	441,564
Matured Compensated Absences Payable	50,374	0	0	11,327	61,701
Deferred Revenue	5,335,573	727,578	0	17,034	6,080,185
Early Retirement Incentive Payable	20,000	0	0	0	20,000
<i>Total Liabilities</i>	7,827,097	727,578	111,969	207,715	8,874,359
<b>Fund Balances</b>					
Fund Balance:					
Reserved for Encumbrances	31,193	0	141,807	48,517	221,517
Reserved for Inventory	26,790	0	0	27,016	53,806
Reserved for Prepays	10,286	0	0	0	10,286
Reserved for Tax Revenue Unavailable for Appropriation	272,530	37,163	0	0	309,693
Reserved for Budget	70,106	0	0	0	70,106
Undesignated, Unreserved Reported in:					
General Fund	(2,451,817)	0	0	0	(2,451,817)
Special Revenue Funds	0	0	0	(20,087)	(20,087)
Debt Service Fund	0	468,517	0	0	468,517
Capital Projects Funds	0	0	1,069,786	0	1,069,786
<i>Total Fund Balances</i>	<u>(2,040,912)</u>	<u>505,680</u>	<u>1,211,593</u>	<u>55,446</u>	<u>(268,193)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 5,786,185</u>	<u>\$ 1,233,258</u>	<u>\$ 1,323,562</u>	<u>\$ 263,161</u>	<u>\$ 8,606,166</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Balances to  
Net Assets Governmental Activities  
June 30, 2005*

Total Governmental Fund Balances		\$ (268,193)
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		14,974,937
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 17,034	
Delinquent Property Taxes	<u>232,174</u>	249,208
 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.		 63,320
 In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not recorded		 (55,943)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Vacation Payable	(59,489)	
General Obligation Bonds	(13,666,351)	
Compensated Absences	(1,273,885)	
Capital Leases Payable	(95,102)	
Bond Accretion	<u>(42,881)</u>	<u>(15,137,708)</u>
 Net Assets of Governmental Activities		 <u>\$ (174,379)</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Bond Retirement	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 5,328,694	\$ 751,800	\$ 0	\$ 0	\$ 6,080,494
Intergovernmental	9,026,061	91,647	0	1,283,713	10,401,421
Investment Income	35,776	0	66,658	726	103,160
Tuition and Fees	703,695	0	0	10,733	714,428
Extracurricular Activities	0	0	0	249,434	249,434
Gifts and Donations	4,188	0	0	15,338	19,526
Rentals	3,888	0	0	0	3,888
Charges for Services	0	0	0	309,817	309,817
Miscellaneous	224,044	0	0	1,823	225,867
<i>Total Revenues</i>	<u>15,326,346</u>	<u>843,447</u>	<u>66,658</u>	<u>1,871,584</u>	<u>18,108,035</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	8,335,305	0	0	161,596	8,496,901
Special	1,093,411	0	0	822,948	1,916,359
Vocational	75,344	0	0	0	75,344
Adult Continuing	4,551	0	0	0	4,551
Support Services:					
Pupils	957,083	0	368,137	67,516	1,392,736
Instructional Staff	892,107	0	0	25,469	917,576
Board of Education	67,736	0	70	0	67,806
Administration	1,329,216	0	0	23,794	1,353,010
Fiscal	426,165	16,429	0	6,008	448,602
Business	78,884	0	0	32	78,916
Operation and Maintenance of Plant	1,180,588	0	26,738	8,341	1,215,667
Pupil Transportation	958,245	0	0	3,479	961,724
Central	83,818	0	0	4,013	87,831
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	744,365	744,365
Community Services	1,702	0	0	43,022	44,724
Extracurricular Activities	344,801	0	0	205,537	550,338
Capital Outlay	187,309	0	5,045,054	0	5,232,363
Debt Service:					
Principal Retirement	44,000	229,070	0	0	273,070
Interest and Fiscal Charges	0	675,113	0	0	675,113
<i>Total Expenditures</i>	<u>16,060,265</u>	<u>920,612</u>	<u>5,439,999</u>	<u>2,116,120</u>	<u>24,536,996</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(733,919)	(77,165)	(5,373,341)	(244,536)	(6,428,961)
<b>Other Financing Sources (Uses):</b>					
Transfers In	0	0	0	106,528	106,528
Transfers Out	(106,528)	0	0	0	(106,528)
Inception of Capital Lease	139,102	0	0	0	139,102
<i>Total Financing Sources and (Uses)</i>	<u>32,574</u>	<u>0</u>	<u>0</u>	<u>106,528</u>	<u>139,102</u>
<i>Net Change in Fund Balance</i>	(701,345)	(77,165)	(5,373,341)	(138,008)	(6,289,859)
<i>Fund Balance (Deficit) Beginning of Year - Restated</i>	(1,337,058)	582,845	6,584,934	184,465	6,015,186
<i>Increase (Decrease) in Reserve for Inventory</i>	(2,509)	0	0	8,989	6,480
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (2,040,912)</u>	<u>\$ 505,680</u>	<u>\$ 1,211,593</u>	<u>\$ 55,446</u>	<u>\$ (268,193)</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2005*

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Net Change in Fund Balances - Total Governmental Funds \$ (6,289,859)

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

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

Fixed Asset Additions	\$ 4,926,490	
Current Year Depreciation	(758,419)	4,168,071

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

Grants	(143,243)	
Delinquent Property Taxes	95,193	(48,050)

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

Bond Principal	229,070	
Capital Leases	44,000	273,070

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.

Accrued Interest	(55,943)	
Bond Accretion	(42,881)	(98,824)

Inception of capital lease in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities.

(139,102)

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

Vacation Payable	(59,489)	
Compensated Absences	32,112	
Pension Obligation	130,540	
Change in Inventory	6,480	109,643

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

(1,918)

Change in Net Assets of Governmental Activities

\$ (2,026,969)

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

**MINERVA LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 6,027,388	\$ 5,472,739	\$ 5,461,445	\$ (11,294)
Intergovernmental	8,655,204	8,980,442	8,980,442	0
Investment Income	34,427	36,611	35,776	(835)
Tuition and Fees	677,747	704,306	704,306	0
Rentals	3,741	3,497	3,888	391
Gifts and Donations	4,030	4,188	4,188	0
Miscellaneous	214,844	222,139	223,263	1,124
<i>Total Revenues</i>	<u>15,617,381</u>	<u>15,423,922</u>	<u>15,413,308</u>	<u>(10,614)</u>
<b>Expenditures</b>				
<b>Current</b>				
Instruction:				
Regular	8,203,633	8,081,621	8,081,619	2
Special	1,126,007	1,040,006	1,040,006	0
Vocational	75,470	75,132	75,133	(1)
Adult Continuing	5,062	4,359	4,358	1
Support Services:				
Pupils	913,166	910,043	910,042	1
Instructional Staff	810,602	853,059	852,948	111
Board of Education	54,346	75,502	75,502	0
Administration	1,275,125	1,300,769	1,300,769	0
Fiscal	407,398	411,163	411,206	(43)
Business	65,445	75,536	75,536	0
Operation and Maintenance of Plant	1,081,622	1,135,290	1,135,290	0
Pupil Transportation	895,103	930,925	930,925	0
Central	41,767	39,892	39,892	0
Operation of Non-Instructional Services:				
Community Service	34,200	1,702	1,702	0
Extracurricular Activities	307,595	341,748	341,748	0
Capital Outlay	180,000	144,527	187,309	(42,782)
Debt Service				0
Principal Retirement	0	44,000	44,000	0
<i>Total Expenditures</i>	<u>15,476,541</u>	<u>15,465,274</u>	<u>15,507,985</u>	<u>(42,711)</u>
Excess of Revenues Over Expenditures	140,840	(41,352)	(94,677)	(53,325)
<b>Other Financing Sources (Uses):</b>				
Transfers In	0	907	0	907
Proceeds of Notes	139,102	139,102	139,102	0
Proceeds from Sale of Assets	600	600	600	0
Advances In	0	16,221	16,221	0
Advances Out	0	0	(1,024)	(1,024)
Operating Transfers Out	(259,981)	(83,960)	(101,078)	(17,118)
<i>Total Other Financing Sources (Uses)</i>	<u>(120,279)</u>	<u>72,870</u>	<u>53,821</u>	<u>(17,235)</u>
<i>Net Change in Fund Balance</i>	20,561	31,518	(40,856)	(72,374)
<i>Fund Balance Beginning of Year</i>	32,091	32,091	32,091	0
Prior Year Encumbrances Appropriated	54,672	54,672	54,672	0
<i>Fund Balance End of Year</i>	<u>\$ 107,324</u>	<u>\$ 118,281</u>	<u>\$ 45,907</u>	<u>\$ (72,374)</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2005*

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	Governmental Activities Internal Service Fund
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,040
Interfund Receivable	<u>185,000</u>
<i>Total Assets</i>	<u>189,040</u>
<b>Liabilities</b>	
Claims Payable	<u>125,720</u>
<i>Total Liabilities</i>	<u>125,720</u>
<b>Net Assets</b>	
Unrestricted	<u>63,320</u>
<i>Total Net Assets</i>	<u><u>\$ 63,320</u></u>

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



**MINERVA LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2005*

	Governmental Activities - Internal Service Fund
<b>Operating Revenues:</b>	
Charges for services	\$ 11
<b>Operating Expenses:</b>	
Fringe benefits	2,170
Operating Income	(2,159)
<b>Non-Operating Revenues:</b>	
Other non-operating revenue	237
Interest	4
<i>Total Non-Operating Revenues</i>	241
<i>Change in Net Assets</i>	(1,918)
<i>Net Assets Beginning of Year</i>	65,238
<i>Net Assets End of Year</i>	\$ 63,320

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

**MINERVA LOCAL SCHOOL DISTRICT**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Fiscal Year Ended June 30, 2005*

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	Governmental Activities - Internal Service Fund
<i>Decrease In Cash and Cash Equivalents</i>	
<b>Cash Flows From Operating Activities:</b>	
Cash Received from Customers	\$ 11
Cash Paid for Goods and Services	<u>(2,170)</u>
<i>Net Cash Used For Operating Activities</i>	<u>(2,159)</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>	
Other Non-Operating Revenue	<u>237</u>
<i>Net Cash Provided By Non-Capital Activities</i>	<u>237</u>
<b>Cash Flows From Investing Activities:</b>	
Interest on Investments	<u>4</u>
<i>Net Cash Provided By Investing Activities</i>	<u>4</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(1,918)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>5,958</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 4,040</u>
<b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:</b>	
Operating Loss	<u>\$ (2,159)</u>
<i>Net Cash Used By Operating Activities</i>	<u>\$ (2,159)</u>

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

**MINERVA LOCAL SCHOOL DISTRICT**

*Statement of Fiduciary Assets and Liabilities*

*Fiduciary Funds*

*June 30, 2005*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ <u>52,554</u>
<b>Liabilities</b>	
Accounts Payable	\$ 13
Due to Students	<u>52,541</u>
<i>Total Liabilities</i>	<u>\$ 52,554</u>

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

## MINERVA LOCAL SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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

The Minerva Local School District (School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2004, was 2,109. The School District employs 154 certificated and 94 non-certificated employees.

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

Component units are legally separate organizations for which the School District is financially accountable. The District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has one component unit described in Note 23.

The School District is involved with Stark Portage Area Computer Consortium (SPARCC) and Stark County Joint Vocational School, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 20.

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

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### ***A. Basis of Presentation***

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

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

**B. Fund Accounting**

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

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

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

**Bond Retirement Fund** The bond retirement fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds and bond anticipation notes used for the construction and renovation of buildings within the School District.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

***C. Measurement Focus***

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***D. Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 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, 2005, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

*E. Cash and Cash Equivalents*

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

During fiscal year 2005, investments were limited to STAROhio, (the State Treasurer's Investment Pool) and Money Market account.

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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$35,776, which includes \$31,779 assigned from other School District funds.

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



**MINERVA LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***F. Prepaid Items***

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

***G. Inventory***

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

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

***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material, capital acquisition, and to create a reserve for budget stabilization. See Note 16 for additional information regarding set asides.

***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**MINERVA LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Description	Governmental Activities Estimated Lives
Land	N/A
Buildings and Improvements	20 - 50 Years
Improvements Other Than Buildings	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 Years

***J. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental columns of the statement of net assets. The School District does not have interfund receivables/payables at the year end.

***K. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's amount of accumulated sick leave that will be paid as a termination benefit.

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

***M. Net Assets***

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

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

***N. Fund Balance Reserves***

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

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

***O. Operating Revenues and Expenses***

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***P. Interfund Activity***

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

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

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

***R. Estimates***

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

***S. Budgetary Data***

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimated Resources** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

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

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

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 3: ACCOUNTING CHANGES AND NET ASSET RESTATEMENTS**

Effective July 1, 2004, the School District had a reappraisal of fixed assets. A positive adjustment to net assets was needed to account for assets previously not capitalized. Also a prior period adjustment was made for a reclassification of a transfer to an advance in the amount of \$16,221. The advance was from the general fund to the student intervention special revenue fund. The net effect of this reclassification on net assets was zero.

	Previously Stated Balance at 6/30/04	Adjustments	Restated Balance at 7/1/04
Governmental Activities	\$ 1,637,136	\$ 215,454	\$ 1,852,590
General Fund	(1,353,279)	16,221	(1,337,058)
Other Governmental Funds	783,531	(16,221)	767,310

**NOTE 4: FUND DEFICITS**

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
General Fund	\$ 2,040,912
Non-Major Funds:	
Drug Free Schools	58
Food Service	78,573
Ohio Reads	18
	\$ 2,119,561

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

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING**

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)**

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

**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ (701,345)
Net Adjustment for Revenue Accruals	100,903
Advances In	16,221
Advances Out	(1,024)
Net Adjustment for Expenditure Accruals	591,858
Adjustment for Encumbrances	<u>(47,469)</u>
Budget Basis	<u><u>\$ (40,856)</u></u>

**NOTE 6: DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 6: DEPOSITS AND INVESTMENTS (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any 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 noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2005, the School District and public depositories complied with the provisions of these statutes.



**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 6: DEPOSITS AND INVESTMENTS (Continued)**

**Deposits with Financial Institutions**

Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District’s deposits was \$2,092,402. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” as of June 30, 2005, \$2,194,835 of the School District’s bank balance of \$2,309,136 was exposed to custodial risk as discussed above, while \$114,301 was covered by Federal Deposit Insurance Corporation.

**Investments**

As of June 30, 2005, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
STAROhio	<u>\$ 412</u>	<u>\$ 412</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

***Interest Rate Risk.*** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law.

***Credit Risk.*** Standard & Poor’s has assigned STAROhio an AAA rating.

***Concentration of Credit Risk.*** The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	<u>\$ 412</u>	<u>100.00%</u>

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

**NOTE 7: RECEIVABLES**

Receivables at June 30, 2005 consisted of property taxes, accounts (billings for user charged services, and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Major Fund:	
General	\$ 45,619
Nonmajor Funds:	
Idea Part B	21,568
Title I	48,856
Safe and Drug Free Schools	243
Title IIA	<u>14,139</u>
<i>Total All Funds</i>	<u>\$ 130,425</u>

**NOTE 8: PROPERTY TAXES**

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

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

The full tax rate applied to real property for tax year 2004 was \$44.50 for Carroll, and \$45.00 for Columbiana and Stark Counties per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$32.30 for Carroll, \$32.80 for Columbiana, and \$28.70 for Stark County per \$1,000 of assessed valuation for both real property classified as residential/agricultural and all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2004 was \$44.50 for Carroll, and \$45.00 for Columbiana and Stark Counties per \$1,000 of assessed value.

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 8: PROPERTY TAXES (Continued)**

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 138,596,490	70%	\$ 135,636,680	71%
Commercial/Industrial/ Public Utility/Minerals	26,632,790	14%	24,498,180	14%
Tangible Personal Property	32,971,699	16%	32,285,762	15%
<b>Total Assessed Value</b>	<b>\$ 198,200,979</b>	<b>100%</b>	<b>\$ 192,420,622</b>	<b>100%</b>
 Tax rate per \$1,000 of assessed value for				
Columbiana and Stark	\$ 45.00		\$ 45.00	
Carroll	\$ 44.50		\$ 44.50	

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 of \$309,693 is recognized as revenue.

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 9: CAPITAL ASSETS**

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

	Restated Balance 6/30/04	Additions	Reductions	Balance 6/30/05
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 127,797	\$ 0	\$ 0	\$ 127,797
Construction in Progress	7,748,310	4,303,407	(12,051,717)	0
	7,876,107	4,303,407	(12,051,717)	127,797
Total Capital Assets, not being depreciated	7,876,107	4,303,407	(12,051,717)	127,797
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,004,754	12,051,717	0	18,056,471
Furniture and Equipment	3,472,612	513,123	0	3,985,735
Vehicles	1,167,239	109,960	(62,363)	1,214,836
	10,644,605	12,674,800	(62,363)	23,257,042
Total Capital Assets, being depreciated	10,644,605	12,674,800	(62,363)	23,257,042
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(4,228,406)	(313,882)	0	(4,542,288)
Furniture and Equipment	(2,639,888)	(334,985)	0	(2,974,873)
Vehicles	(845,552)	(109,552)	62,363	(892,741)
	(7,713,846)	(758,419)	62,363	(8,409,902)
Total Accumulated Depreciation	(7,713,846)	(758,419)	62,363	(8,409,902)
Total Capital Assets being depreciated, net	2,930,759	11,916,381	0	14,847,140
Governmental Activities Capital Assets, Net	\$ 10,806,866	\$ 16,219,788	\$ (12,051,717)	\$ 14,974,937

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 571,305
Support Services:	
Administration	14,033
Fiscal	6,473
Operation and Maintenance of Plant	7,492
Central	113,185
Operation of Non-Instructional Services	12,161
Extracurricular Activities	33,770
	33,770
Total Depreciation	\$ 758,419

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 10: LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during the fiscal year 2005 were as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
Energy Notes:					
1997 - 6.00% interest rate, maturing August 2007	\$ 58,825	\$ 0	\$ (18,100)	\$ 40,725	\$ 18,100
1999 - 5.25% interest rate, maturing June 2009	<u>61,506</u>	<u>0</u>	<u>(10,970)</u>	<u>50,536</u>	<u>11,692</u>
Total Energy Notes	120,331	0	(29,070)	91,261	29,792
General Obligation Bonds:					
2002 Classroom Facilities Bonds:					
Series Bonds	13,405,000	0	(200,000)	13,205,000	225,000
Capital Appreciation Bonds	294,998	0	0	294,998	0
Accretion on Capital Appreciation Bonds	<u>75,092</u>	<u>42,881</u>	<u>0</u>	<u>117,973</u>	<u>0</u>
Total General Obligation Bonds	13,775,090	42,881	(200,000)	13,617,971	225,000
Capital Lease Payable	0	139,102	(44,000)	95,102	47,103
Compensated Absences	<u>1,305,995</u>	<u>214,077</u>	<u>(215,850)</u>	<u>1,304,222</u>	<u>6,200</u>
Total long-term obligations - governmental activities	<u>\$ 15,201,416</u>	<u>\$ 396,060</u>	<u>\$ (488,920)</u>	<u>\$ 15,108,556</u>	<u>\$ 308,095</u>

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

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

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 10: LONG-TERM OBLIGATIONS (Continued)**

The School District's overall debt margin was \$3,777,141 with an unvoted debt margin of \$101,160 at June 30, 2005. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Year Ending	General Obligation Bonds		Capital Appreciation Bonds		Energy Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 225,000	\$ 662,440	\$ 0	\$ 0	\$ 29,792	\$ 4,401	\$ 254,792	\$ 666,841
2007	250,000	654,765	0	0	30,421	2,686	280,421	657,451
2008	275,000	645,628	0	0	17,509	1,137	292,509	646,765
2009	300,000	634,903	0	0	13,539	371	313,539	635,274
2010	325,000	622,547	0	0	0	0	325,000	622,547
2011-2015	1,250,000	2,382,273	294,998	585,002	0	0	1,544,998	2,967,275
2016-2020	2,680,000	2,444,773	0	0	0	0	2,680,000	2,444,773
2021-2025	3,445,000	1,655,046	0	0	0	0	3,445,000	1,655,046
2026-2030	4,455,000	614,667	0	0	0	0	4,455,000	614,667
<b>Total</b>	<b>\$ 13,205,000</b>	<b>\$ 10,317,042</b>	<b>\$ 294,998</b>	<b>\$ 585,002</b>	<b>\$ 91,261</b>	<b>\$ 8,595</b>	<b>\$ 13,591,259</b>	<b>\$ 10,910,639</b>

**NOTE 11: CAPITALIZED LEASES – LESSEE DISCLOSURE**

The School District entered into a lease agreement for Apple computers. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments reflected as debt service in the basic financial statements for the government funds.

These assets have been capitalized in the governmental capital assets in the amount of \$139,102, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005:

	<u>Apple Computers</u>
Year ending June 30, 2006	\$ 48,911
2007	<u>48,911</u>
	97,822
Less: amount representing interest	<u>2,720</u>
Present value of minimum lease payments	<u>\$ 95,102</u>

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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**NOTE 12: DEFINED BENEFIT PENSION PLANS**

*A. State Teachers Retirement System*

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

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

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

For fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,092,552, \$1,125,960 and \$1,096,764, respectively; 83 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$184,060, representing the unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds.

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2005**

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**NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)**

***B. School Employees Retirement System***

Minerva Local School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$317,556, \$301,296 and \$304,500, respectively; 44 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$179,244, representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the respective funds and the general long-term obligations account group.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all but one members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**NOTE 13: POSTEMPLOYMENT BENEFITS**

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

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



MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

**NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)**

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$78,039 during the 2005 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004 (the latest information available), the health care costs paid by STRS were \$268,739,000 and STRS had 118,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2005, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$143,539.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

**NOTE 14: DEFERRED REVENUE**

Deferred revenue at June 30, 2005 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 5,830,977	\$ 6,063,151
Grants Receivable	0	17,034
Deferred Revenue	<u>\$ 5,830,977</u>	<u>\$ 6,080,185</u>

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 15: INTERFUND TRANACTIONS**

***A. Interfund Transactions***

As of June 30, 2005, balance sheet receivables and payables that resulted from cash advances were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,024	\$ 185,000
Other Governmental:		
Auxiliary Services	0	1,024
Internal Service	185,000	0
Totals	\$ 186,024	\$ 186,024

***B. Reconciliation of Interfund Transfers***

	Transfers In	Transfers Out
Governmental Fund Type:		
General	\$ 0	\$ 106,528
Other Governmental Funds:		
Other Grants	5,450	0
Ohio Reads	74,027	0
Athletics	27,051	0
Total	\$ 106,528	\$ 106,528

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 16: STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbook Reserve	Capital Acquisition	BWC Refund	Totals
Set-aside balance as of June 30, 2004	\$ 13,400	\$ 0	\$ 70,106	\$ 83,506
Current year set-aside requirement	302,970	302,970	0	605,940
Current year qualifying disbursements	(319,200)	(303,873)	0	(623,073)
Balance carried forward from prior year		(13,832,555)	0	(13,832,555)
<b>Total</b>	<b>\$ (2,830)</b>	<b>\$ (13,833,458)</b>	<b>\$ 70,106</b>	<b>\$ (13,766,182)</b>
Set-aside balance carried forward to FY 2006	\$ (2,830)	\$ 0	\$ 70,106	
Cash balance carried forward to FY 2006	\$ (2,830)	\$ (13,832,555)	\$ 70,106	

Effective April 10, 2004, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2004 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used.

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

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for BWC refund	<u>\$ 70,106</u>
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The School District's General Fund pooled cash is restricted cash at year end for the BWC refund. Therefore, the Statement of Net Assets and the Balance Sheet reflects restricted cash.

The School District had qualifying disbursements during the fiscal year that reduced the capital acquisition and textbook set aside amounts below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years.

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

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 17: CONTRACTUAL COMMITMENTS**

As of June 30, 2005, the School District had contractual commitments for construction of a new middle school and the renovation of the high school.

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance June 30, 2005</u>
Hammond Industrial	\$ 588,896	\$ 577,665	\$ 11,231
GMR Builders, Inc.	1,104,016	1,060,086	43,930
Hischler-Clarke Electric Co.	986,718	934,267	52,451
Hischler-Clarke Electric Co.	149,311	145,426	3,885
Total	<u>\$ 2,828,941</u>	<u>\$ 2,717,444</u>	<u>\$ 111,497</u>

**NOTE 18: RISK MANAGEMENT**

**A. General Insurance**

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$52,000 per incident on property and equipment. The School District's comprehensive property and casualty policy aggregate limit is approximately \$44,057,127. The School District's vehicle insurance policy limit is \$1,000,000 with a \$250 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally the School District carries a \$5,000,000 blanket umbrella policy. The limits of this of this coverage are \$2,000,000 per occurrence and \$5,000,000 in aggregate. Claims have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

**B. Fidelity Bond**

The Board President and Superintendent are covered under surety bonds in the amount of \$25,000. The Treasurer is covered under a surety bond in the amount of \$75,000. In addition, other school employees who are responsible for handling funds are covered under bonds of \$2,000 each.

**C. Workers' Compensation**

The District participates in the Stark County Schools Council of Government Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium is applied to all school districts in the GRP.

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

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 18: RISK MANAGEMENT (Continued)**

***D. Employee Health Insurance***

The District was self insured for its medical and dental insurance programs until June 30, 2004. Premiums were paid into the self-insurance fund and were available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covered specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$125,720 reported in the Internal Service Fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal years 2005 and 2004 are as follows:

	Beginning of Year	Claims	Payments	Balance at End of Year
2005	\$ 125,720	\$ 0	\$ 0	\$ 125,720
2004	\$ 107,090	\$ 18,630	\$ 0	\$ 125,720

***E. Risk Sharing Pool***

Effective July 1, 2004, the District has contracted with Stark County Schools Council of Governments (the "Council") to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

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

Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board. For fiscal year 2005, the District's monthly premiums were \$736.52 for family coverage and \$309.18 for single coverage. Dental insurance is also provided by the District to qualified employees through the Stark County Schools Council for Governments. For fiscal year 2005, the District's cost was \$94.97 for family coverage and \$38.50 for single coverage per employee per month. Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

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

## MINERVA LOCAL SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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#### **NOTE 19: PUBLIC ENTITY RISK POOL**

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

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

#### **NOTE 20: JOINTLY GOVERNED ORGANIZATIONS**

##### ***A. Stark Portage Area Computer Consortium***

Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The District paid \$33,607 to SPARCC during the fiscal year 2005. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38<sup>th</sup> Street NW, Canton, OH 44709-2300.

##### ***B. Stark County Joint Vocational School***

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

**MINERVA LOCAL SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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**NOTE 21: 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, 2005.

***B. Litigation***

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

**NOTE 22: STATE SCHOOL FUNDING DECISION**

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

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

**NOTE 23: LION DIGITAL ACADEMY**

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

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 19, 2005

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Minerva Local School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated December 19, 2005.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 19, 2005.

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

*Rea & Associates, Inc.*



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 19, 2005

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

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

### Compliance

We have audited the compliance of the Minerva Local School District (the "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, 2005. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the 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 Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the School District's compliance with those requirements.

In our opinion, the 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, 2005.

### Internal Control Over Compliance

The management of the 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 the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over compliance that we have reported to management of the School District in a separate letter dated December 19, 2005.

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

*Hea & Associates, Inc.*

MINERVA LOCAL SCHOOL DISTRICT  
STARK COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION (Passed through Ohio Department of Education)						
Title 1, Part A, ESEA Elementary and Secondary Education Act	84.010	C1-S1 2004 C1-S1 2005	\$ 18,416 259,051		\$ 52,108 242,060	
Total Title 1, Part A, ESEA			<u>277,467</u>		<u>294,168</u>	
Special Education Grants to States	84.027	6B-SF 2004 6B-SF 2005	85,422 438,605		115,495 406,260	
Total Special Education Grants to States			<u>524,027</u>		<u>521,755</u>	
Innovative Education Program Strategies	84.298	C2-S1 2005	9,648		9,648	
Technology Literacy Challenge Grant	84.318	TJ-S1 2004 TJ-S1 2005	6,794 7,997		7,997 0	
Total Technology Literacy Challenge Grant			<u>14,791</u>		<u>7,997</u>	
Title VI R Class Reduction	84.340	CR-S1 2004 CR-S1 2005	0 89,793		9,034 83,649	
Total Title VI R Class Reduction			<u>89,793</u>		<u>92,683</u>	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DR-S1 2004	10,544		10,544	
Total U. S. Department of Education			<u>926,270</u>		<u>936,795</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Passed through Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program - Community Alternative Funding System (CAFS)	93.778	FY 2005	27,495		27,495	
Medical Assistance Program - State Children's Health Insurance Program (SCHIP)	93.767	FY 2005	1,213		1,213	
Total U.S. Department of Health and Human Services			<u>28,708</u>		<u>28,708</u>	
U. S. DEPARTMENT OF AGRICULTURE (Passed through Ohio Department of Education)						
Nutrition Cluster: Food Distribution Program	10.550	FY05		\$ 50,115		\$ 50,115
National School Breakfast Program	10.553		23,443		23,443	
National School Lunch Program	10.555	LL-P4 2005	240,872		240,872	
Total US Department of Agriculture - Nutrition Cluster			<u>264,315</u>	<u>50,115</u>	<u>264,315</u>	<u>50,115</u>
Total Federal Financial Assistance			<u>\$ 1,219,293</u>	<u>\$ 50,115</u>	<u>\$ 1,229,818</u>	<u>\$ 50,115</u>

MINERVA LOCAL SCHOOL DISTRICT  
STARK COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2005

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2005, the School District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

MINERVA LOCAL SCHOOL DISTRICT  
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2005

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

A-133 Ref.  
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness Conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control Weakness conditions reported at the Financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-Compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control Weakness conditions reported for major Federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster	CFDA # 84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

NONE

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

NONE

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

NONE





**Auditor of State  
Betty Montgomery**

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**MINERVA LOCAL SCHOOL DISTRICT**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 9, 2006**