



**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	21
Notes to the Basic Financial Statements.....	23
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Monroeville Local School District
Huron County
101 West Street
Monroeville, Ohio 44847-9797

To the Board of Education:

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

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

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

As described in Note 3, during the year ended June 30, 2005, The District implemented Governmental Accounting Standards Board Technical Bulletin 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

June 26, 2006

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$208,874 which represents a 4.9% decrease from 2004.
- General revenues accounted for \$5,031,448 in revenue or 82.79% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,045,765 or 17.21% of total revenues of \$6,077,213.
- The District had \$6,286,087 in expenses related to governmental activities; \$1,045,765 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,031,448 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,384,844 in revenues and other financing sources and \$5,703,577 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$318,733 from \$2,912,029 to \$2,593,296.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the 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 financial statements provide a detailed *short-term* view of the 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 basic financial statements.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic 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 District as a Whole

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

The table below provides a summary of the District's net assets for fiscal years 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 5,575,323	\$ 6,004,333
Capital assets	<u>1,578,340</u>	<u>1,389,448</u>
Total assets	<u>7,153,663</u>	<u>7,393,781</u>
<u>Liabilities</u>		
Current liabilities	2,669,548	2,728,616
Long-term liabilities	<u>459,789</u>	<u>431,965</u>
Total liabilities	<u>3,129,337</u>	<u>3,160,581</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,392,237	1,269,216
Restricted	156,021	64,557
Unrestricted	<u>2,476,068</u>	<u>2,899,427</u>
Total net assets	<u>\$ 4,024,326</u>	<u>\$ 4,233,200</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$4,024,326. Of this total, \$2,476,068 is unrestricted in use.

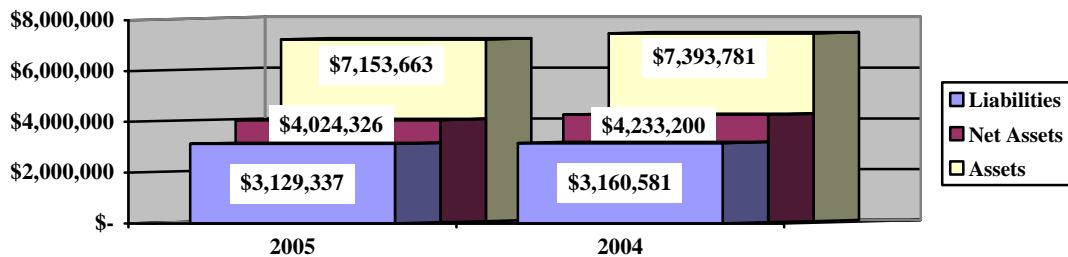
**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At year-end, capital assets represented 22.06% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,392,237. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$156,021, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,476,068 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 549,326	\$ 464,807
Operating grants and contributions	479,996	502,931
Capital grants and contributions	16,443	
General revenues:		
Property taxes	2,468,522	2,803,525
Grants and entitlements	2,475,495	2,482,846
Investment earnings	73,168	46,560
Other	14,263	27,254
Total revenues	6,077,213	6,327,923

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,750,671	\$ 2,610,940
Special	564,847	646,794
Vocational	216,188	221,545
Other		67,890
Support services:		
Pupil	195,535	227,640
Instructional staff	378,553	179,723
Board of education	59,806	14,948
Administration	496,661	533,218
Fiscal	220,230	204,569
Business	5,304	61,856
Operations and maintenance	543,153	538,601
Pupil transportation	314,772	260,203
Central	7,259	6,258
Operations of non-instructional services	61,397	87,324
Food service operations	251,926	238,389
Extracurricular activities	208,772	206,495
Interest and fiscal charges	11,013	7,068
Total expenses	<u>6,286,087</u>	<u>6,113,461</u>
Change in net assets	(208,874)	214,462
Net assets at beginning of year	<u>4,233,200</u>	<u>4,018,738</u>
Net assets at end of year	<u>\$ 4,024,326</u>	<u>\$ 4,233,200</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$208,874. The decrease was due to payment of severance pay to several employees and legal expenses. Total governmental expenses of \$6,286,087 were offset by program revenues of \$1,045,765 and general revenues of \$5,031,448. Program revenues supported 16.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.36% of total governmental revenue.

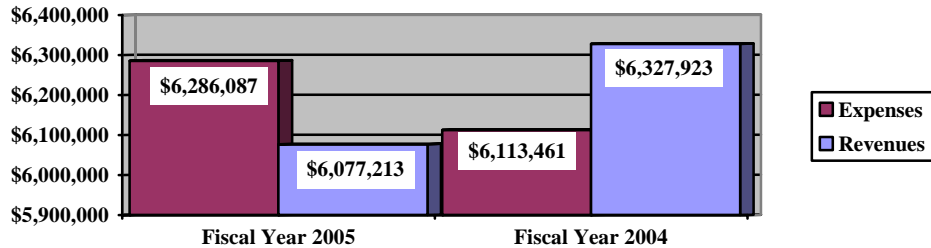
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,531,706 or 56.18% of total governmental expenses for fiscal 2005.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements

	Governmental Activities			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 2,750,671	\$ 2,395,787	\$ 2,610,940	\$ 2,300,804
Special	564,847	378,591	646,794	466,825
Vocational	216,188	216,188	221,545	221,545
Other			67,890	67,890
Support services:				
Pupil	195,535	159,981	227,640	198,338
Instructional staff	378,553	339,513	179,723	172,767
Board of education	59,806	59,806	14,948	14,948
Administration	496,661	483,188	533,218	533,218
Fiscal	220,230	217,730	204,569	199,569
Business	5,304	5,304	61,856	61,856
Operations and maintenance	543,153	533,430	538,601	538,601
Pupil transportation	314,772	314,772	260,203	260,203
Central	7,259	7,259	6,258	6,258
Operations of non-instructional services	61,397	(16,131)	87,324	(2,149)
Food service operations	251,926	356	238,389	(15,435)
Extracurricular activities	208,772	133,535	206,495	113,417
Interest and fiscal charges	11,013	11,013	7,068	7,068
Total expenses	\$ 6,286,087	\$ 5,240,322	\$ 6,113,461	\$ 5,145,723

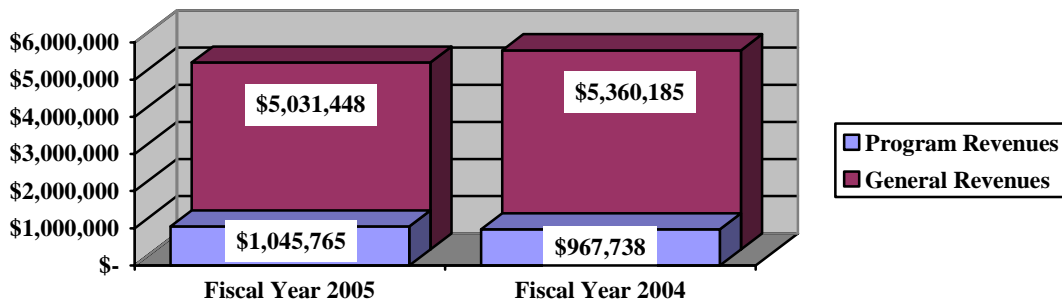
**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 84.68% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.36%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,798,980, which is lower than last year's total of \$3,114,571. The June 30, 2004, fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 2,593,296	\$2,912,029	\$ (318,733)	(10.95) %
Other Governmental	<u>205,684</u>	<u>202,542</u>	<u>3,142</u>	1.55 %
Total	<u>\$ 2,798,980</u>	<u>\$3,114,571</u>	<u>\$ (315,591)</u>	(10.13) %

General Fund

The District's general fund balance decreased \$318,733 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to a decrease in tax revenue due to a decrease in the tax rate and increased expenditures due to the purchase of property and capital leases for a copier and computers. Expenditures exceeded revenues for fiscal year 2005 by \$403,649. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	<u>2005</u>	<u>Restated</u> <u>2004</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,412,182	\$ 2,688,916	\$ (276,734)	(10.29) %
Earnings on investments	72,011	45,447	26,564	58.45 %
Intergovernmental	2,475,495	2,473,802	1,693	0.07 %
Other revenues	<u>306,524</u>	<u>253,684</u>	<u>52,840</u>	20.83 %
 Total	 <u>\$ 5,266,212</u>	 <u>\$ 5,461,849</u>	 <u>\$ (195,637)</u>	 (3.58) %
<u>Expenditures</u>				
Instruction	\$ 3,170,302	\$ 3,162,264	\$ 8,038	0.25 %
Support services	2,043,159	1,956,793	86,366	4.41 %
Extracurricular activities	135,185	128,604	6,581	5.12 %
Facilities acquisition and construction	138,869	18,650	120,219	644.61 %
Capital outlay	118,602		118,602	100.00 %
Debt service	<u>63,744</u>	<u>23,613</u>	<u>40,131</u>	169.95 %
 Total	 <u>\$ 5,669,861</u>	 <u>\$ 5,289,924</u>	 <u>\$ 379,937</u>	 7.18 %

General Fund Budgeting Highlights

The 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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,136,610 and final budgeted revenues and other financing sources were \$5,116,365. Actual revenues and other financing sources for fiscal 2005 was \$5,273,239. This represents a \$156,874 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,120,681 were increased to \$6,128,355 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$5,698,842, which was \$429,513 less than the final budget appropriations.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$1,578,340 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 167,477	\$ 77,982
Land improvements	73,104	68,917
Building and improvements	946,078	986,735
Furniture and equipment	376,931	239,073
Vehicles	14,750	16,741
Total	\$ 1,578,340	\$ 1,389,448

The overall increase in capital assets of \$188,892 is due in part to capital outlays of \$438,581 being greater than depreciation expense of \$249,202 and disposals of \$487 (net of accumulated depreciation) in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$102,777 in energy conservation notes outstanding and \$83,326 in capital lease obligations for copier equipment and computers that were capitalized in assets for the amount of \$118,602. Of the outstanding obligations total, \$56,830 is due within one year and \$129,273 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmenta Activities
	2005	2004
Energy conservation notes	\$ 102,777	\$ 120,232
Capital lease obligation	83,326	-
Total	\$ 186,103	\$ 120,232

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At June 30, 2005, the District's overall legal debt margin was \$7,298,721, an unvoted debt margin of \$81,097 and an energy conservation debt margin of \$627,095.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District relies on property taxes, entitlements and grants. Tax revenues have increased slightly while state revenues and grants are decreasing. Expenditures are increasing at double the rate of revenue increases. As this trend continues, carryover funds are depleted in the 4th year of the five-year forecast.

The District has been successful in renewing operating and emergency levies. As the valuation increases, tax on property owner increases as well. It will become increasingly more difficult to continue the passage of these levies and may be even more difficult when the District will be required to ask for additional funds for the operation of the schools. The majority of the tax revenue is derived from real estate and farming. The District is mainly rural and has a very small industrial base.

The facilities are overcrowded and have not been updated significantly to meet the needs and additional course offerings necessary to be academically proficient. The voters have rejected a plan for a new 7-12 facility to be partially paid by the Ohio School Facilities twice. The District is no longer eligible to receive funds from OSF so the Board has asked voters to approve a bond issue to upgrade and add to the current facility. This issue for the total cost of the project was rejected twice by the voters of the District. This issue may be on the ballot of the November election, but at this time no decisions have been made.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Susan Ammanniti, Treasurer, Monroeville Local School District, 101 West Street, Monroeville, Ohio 44847-9797.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

		<u>Governmental Activities</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$	3,006,624
Cash with fiscal agent		777
Receivables:		
Taxes		2,467,752
Accounts		8,185
Intergovernmental		45,778
Accrued interest		16,730
Internal loans.		
Prepayments		24,125
Materials and supplies inventory		5,352
Unamortized bond issue costs		
Capital assets:		
Land		167,477
Depreciable capital assets, net		1,410,863
Capital assets, net.		<u>1,578,340</u>
 Total assets.		 <u>7,153,663</u>
 Liabilities:		
Accounts payable.		44,779
Contracts payable.		
Retainage payable		
Accrued wages and benefits		574,814
Pension obligation payable.		134,086
Intergovernmental payable		20,340
Deferred revenue		1,895,529
Accrued interest payable		
Long-term liabilities:		
Due within one year.		69,068
Due in more than one year		390,721
Total liabilities		<u>3,129,337</u>
 Net Assets:		
Invested in capital assets, net		
of related debt.		1,392,237
Restricted for:		
Capital projects		108,952
State funded programs.		12,656
Federally funded programs.		6,135
Student activities.		5,280
Public school support		
Other purposes		22,998
Unrestricted.		<u>2,476,068</u>
Total net assets	\$	<u><u>4,024,326</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 2,750,671	\$ 281,261	\$ 73,623		\$ (2,395,787)
Special	564,847	11,000	175,256		(378,591)
Vocational	216,188				(216,188)
Other					
Support services:					
Pupil	195,535		35,554		(159,981)
Instructional staff	378,553		32,320	\$ 6,720	(339,513)
Board of education	59,806				(59,806)
Administration	496,661	10,134	3,339		(483,188)
Fiscal	220,230		2,500		(217,730)
Business	5,304				(5,304)
Operations and maintenance	543,153			9,723	(533,430)
Pupil transportation	314,772				(314,772)
Central	7,259				(7,259)
Operation of non-instructional					
services	61,397		77,528		16,131
Food service operations	251,926	171,694	79,876		(356)
Other non-instructional services					
Extracurricular activities	208,772	75,237			(133,535)
Interest and fiscal charges	11,013				(11,013)
Total governmental activities	\$ 6,286,087	\$ 549,326	\$ 479,996	\$ 16,443	(5,240,322)
General Revenues:					
Property taxes levied for:					
					2,388,675
					79,847
					2,475,495
					73,168
					14,263
					5,031,448
					(208,874)
					4,233,200
					\$ 4,024,326

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,704,453	\$ 302,171	\$ 3,006,624
Cash with fiscal agent		777	777
Receivables:			
Taxes	2,388,869	78,883	2,467,752
Accounts	5,624	2,561	8,185
Intergovernmental		45,778	45,778
Accrued interest	16,730		16,730
Interfund loan receivable	30,164		30,164
Prepayments	24,125		24,125
Materials and supplies inventory		5,352	5,352
Total assets	<u>\$ 5,169,965</u>	<u>\$ 435,522</u>	<u>\$ 5,605,487</u>
Liabilities:			
Accounts payable	\$ 26,418	\$ 18,361	\$ 44,779
Accrued wages and benefits	522,413	52,401	574,814
Pension obligation payable.	115,384	18,702	134,086
Intergovernmental payable.	18,497	1,843	20,340
Interfund loan payable.		30,164	30,164
Deferred revenue.	1,893,957	108,367	2,002,324
Total liabilities	<u>2,576,669</u>	<u>229,838</u>	<u>2,806,507</u>
Fund Balances:			
Reserved for encumbrances	27,926	87,457	115,383
Reserved for materials and supplies inventory.		5,352	5,352
Reserved for prepayments	24,125		24,125
Reserved for property tax unavailable for appropriation	505,322	16,294	521,616
Unreserved, undesignated, reported in:			
General fund	2,035,923		2,035,923
Special revenue funds.		79,294	79,294
Capital projects funds.		17,287	17,287
Total fund balances	<u>2,593,296</u>	<u>205,684</u>	<u>2,798,980</u>
Total liabilities and fund balances	<u>\$ 5,169,965</u>	<u>\$ 435,522</u>	<u>\$ 5,605,487</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 2,798,980
<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.		1,578,340
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 50,607	
Intergovernmental revenue	45,778	
Accrued interest	10,410	
Total		106,795
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	273,686	
Energy conservation notes payable	102,777	
Capital lease	83,326	
Total		(459,789)
Net assets of governmental activities		\$ 4,024,326

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 2,412,182	\$ 81,172	\$ 2,493,354
Tuition	264,927		264,927
Charges for services		171,694	171,694
Earnings on investments	72,011	2,668	74,679
Extracurricular		74,875	74,875
Classroom materials and fees.	27,334		27,334
Contributions and donations.			
Extracurricular.			
Other local revenues	14,263	16,140	30,403
Intergovernmental - State	2,475,495	157,783	2,633,278
Intergovernmental - Federal.		317,902	317,902
Total revenues.	5,266,212	822,234	6,088,446
Expenditures:			
Current:			
Instruction:			
Regular	2,555,408	80,848	2,636,256
Special.	398,311	180,866	579,177
Vocational.	216,583		216,583
Support services:			
Pupil.	158,130	35,188	193,318
Instructional staff	319,143	37,252	356,395
Board of education	59,086		59,086
Administration.	472,522	17,483	490,005
Fiscal	212,715	5,027	217,742
Business	4,560		4,560
Operations and maintenance.	498,759	13,366	512,125
Pupil transportation	312,645	300	312,945
Central.	5,599		5,599
Operation of non-instructional services		75,789	75,789
Food service operations		271,095	271,095
Extracurricular activities.	135,185	73,587	208,772
Facilities acquisition and construction.	138,869	61,977	200,846
Capital outlay	118,602		118,602
Debt service:			
Principal retirement.	52,731		52,731
Interest and fiscal charges	11,013		11,013
Total expenditures	5,669,861	852,778	6,522,639
Excess of revenues under expenditures	(403,649)	(30,544)	(434,193)
Other financing sources (uses):			
Transfers in	30	33,716	33,746
Transfers (out).	(33,716)	(30)	(33,746)
Capital lease transaction	118,602		118,602
Total other financing sources (uses)	84,916	33,686	118,602
Net change in fund balances	(318,733)	3,142	(315,591)
Fund balances			
at beginning of year (restated).	2,912,029	202,542	3,114,571
Fund balances at end of year.	\$ 2,593,296	\$ 205,684	\$ 2,798,980

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (315,591)

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

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

Capital asset additions	\$	438,581	
Current year depreciation		<u>(249,202)</u>	
			189,379

The net effect of various miscellaneous transactions involving
capital assets is to decrease net assets.

Disposal of capital assets		(41,025)	
Accumulated depreciation on disposed capital assets		<u>40,538</u>	
			(487)

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

Delinquent property taxes		(24,832)	
Intergovernmental revenues		15,110	
Accrued interest		<u>(1,511)</u>	
			(11,233)

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			52,731
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Capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.			(118,602)
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			<u>(5,071)</u>
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Change in net assets of governmental activities \$ (208,874)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 2,463,959	\$ 2,454,189	\$ 2,398,100	\$ (56,089)
Tuition.	195,776	195,000	260,244	65,244
Earnings on investments.	40,159	40,000	67,034	27,034
Classroom materials and fees	2,510	2,500	27,323	24,823
Other local revenues	8,248	8,215	11,659	3,444
Intergovernmental - State	2,395,498	2,386,000	2,475,495	89,495
Total revenues.	<u>5,106,150</u>	<u>5,085,904</u>	<u>5,239,855</u>	<u>153,951</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,694,576	2,697,954	2,551,376	146,578
Special.	544,314	544,997	424,191	120,806
Vocational.	253,532	253,850	231,969	21,881
Support services:				
Pupil.	200,344	200,595	164,543	36,052
Instructional staff	457,152	457,725	355,254	102,471
Board of education	28,770	28,806	61,400	(32,594)
Administration.	474,875	475,470	499,396	(23,926)
Fiscal	202,544	202,798	212,236	(9,438)
Business	36,454	36,500	8,131	28,369
Operations and maintenance.	537,073	537,746	519,028	18,718
Pupil transportation	278,296	278,645	293,362	(14,717)
Central.	6,592	6,600	5,639	961
Extracurricular activities.	156,880	157,077	134,890	22,187
Facilities acquisition and construction.	132,647	132,813	138,869	(6,056)
Debt Service:				
Principal retirement.	17,433	17,455	17,455	
Interest and fiscal charges.	6,125	6,133	6,133	
Total expenditures	<u>6,027,607</u>	<u>6,035,164</u>	<u>5,623,872</u>	<u>411,292</u>
Excess of revenues under expenditures.	<u>(921,457)</u>	<u>(949,260)</u>	<u>(384,017)</u>	<u>565,243</u>
Other financing sources (uses):				
Refund of prior year expenditure.	10,000	10,000	450	(9,550)
Transfers in.			2,473	2,473
Transfers (out)	(42,887)	(42,941)	(34,753)	8,188
Advances in.	20,460	20,461	30,461	10,000
Advances (out)	(49,937)	(50,000)	(40,163)	9,837
Refund of prior year receipts.	(250)	(250)	(54)	196
Total other financing sources (uses)	<u>(62,614)</u>	<u>(62,730)</u>	<u>(41,586)</u>	<u>21,144</u>
Net change in fund balance	(984,071)	(1,011,990)	(425,603)	586,387
Fund balance at beginning of year.	2,864,723	2,864,723	2,864,723	
Prior year encumbrances appropriated	230,340	230,340	230,340	
Fund balance at end of year	\$ 2,110,992	\$ 2,083,073	\$ 2,669,460	\$ 586,387

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 31,276	\$ 34,018
Receivables:		
Accrued interest	1,420	
Total assets.	<u>32,696</u>	<u>\$ 34,018</u>
Liabilities:		
Accounts payable.	620	\$ 5,213
Due to students		28,805
Total liabilities	<u>620</u>	<u>\$ 34,018</u>
Net Assets:		
Held in trust for scholarships	<u>32,076</u>	
Total net assets	<u>\$ 32,076</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
Additions:		
Interest	\$	1,099
Gifts and contributions.		<u>10,453</u>
Total additions.		<u>11,552</u>
Deductions:		
Scholarships awarded		<u>9,685</u>
Change in net assets		1,867
Net assets at beginning of year		<u>30,209</u>
Net assets at end of year	\$	<u><u>32,076</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Monroeville Local School District (the "District") is located in Huron County and encompasses the Village of Monroeville and portions of surrounding townships in Huron and Erie Counties.

The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 550th largest by enrollment among the 614 public school districts in the state, and the smallest in Huron County. It currently operates one elementary school and one comprehensive high school. The District employs 30 non-certified and 55 certified employees to provide services to 780 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each school district. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Career Center (Center)

The Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Center accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Monroeville Public Library

The District appoints the trustees of the library and approves its budget to comply with state code requirements, but is not involved in budgeting or management of the library and does not subsidize and finance the operation of the library.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The 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 is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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. Fiduciary funds also use the accrual basis of accounting.

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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function and object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and object level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$72,011, which includes \$5,502 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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. The District does not possess infrastructure.

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 improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Parochial Schools

Within the District boundaries, St. Joseph Elementary is operated through the Toledo Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a special revenue fund for financial reporting purposes.

P. Estimates

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

Q. Interfund Activity

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

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

R. 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 year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

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

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 2,953,313	\$ 212,045	\$ 3,165,358
GASB Technical Bulletin No. 2004-2	(41,284)	(9,503)	(50,787)
Restated Fund Balance, June 30, 2004	\$ 2,912,029	\$ 202,542	\$ 3,114,571

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information System	\$ 36
Entry year programs	7
Ohio Reads	7
Summer Intervention	4,359
Title VI-B	31,047
Title I	18,697
Title VI	1,528
Miscellaneous Federal Grants	14

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

Interim monies 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 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.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

A. Cash on Hand

At year-end, the District had \$2,150 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Fiscal Agent: At fiscal year-end, \$777 was left from pass through grants received from the County education service center; however, this amount is not part of the internal cash pool reported on the financial statements as "Equity in Pooled Cash and Cash Equivalents" and is not included in "Deposits with Financial Institutions" below.

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,190,683. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,072,559 of the District's bank balance of \$1,372,559 was exposed to custodial risk as discussed below, while \$300,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

D. Investments

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

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 1,879,085	\$ 1,879,085
	<u>\$ 1,879,085</u>	<u>\$ 1,879,085</u>

Credit Risk: STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. Standard & Poor's has assigned STAR Ohio an AAAm money market rating.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,190,683
Investments	1,879,085
Cash with fiscal agent	777
Cash on hand	<u>2,150</u>
Total	<u>\$ 3,072,695</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,007,401
Private-purpose trust funds	31,276
Agency funds	<u>34,018</u>
Total	<u>\$ 3,072,695</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$33,716
Transfers to General Fund from:	
Nonmajor Governmental funds	\$30

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- B.** Interfund transfers for the year ended June 30, 2005, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 30,164

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005, are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

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

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

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

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

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

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

The amount available as an advance at June 30, 2005, was \$505,322 in the general fund and \$16,294 in the Permanent Improvement capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004, was \$491,240 in the general fund, and \$15,823 in the Permanent Improvement capital projects fund.

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

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 69,465,820	86.25%	\$ 71,000,200	87.55%
Public utility personal	2,901,050	3.60%	2,437,850	3.01%
Tangible personal property	<u>8,171,090</u>	<u>10.15%</u>	<u>7,658,850</u>	<u>9.44%</u>
Total	<u>\$ 80,537,960</u>	<u>100.00%</u>	<u>\$ 81,096,900</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 46.90		\$ 46.80	

NOTE 7 - RECEIVABLES

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

Governmental Activities:	
Taxes	\$ 2,467,752
Accounts	8,185
Intergovernmental	45,778
Accrued interest	<u>16,730</u>
Total	<u>\$ 2,538,445</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
<i>Governmental Activities</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 77,982	\$ 89,495	\$ -	\$ 167,477
Total capital assets, not being depreciated	<u>77,982</u>	<u>89,495</u>	<u>-</u>	<u>167,477</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	167,522	11,021		178,543
Buildings and improvements	2,206,354	13,480		2,219,834
Furniture and equipment	872,569	324,585	(41,025)	1,156,129
Vehicles	427,616	-	-	427,616
Total capital assets, being depreciated	<u>3,674,061</u>	<u>349,086</u>	<u>(41,025)</u>	<u>3,982,122</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(98,605)	(6,834)		(105,439)
Buildings and improvements	(1,219,619)	(54,137)		(1,273,756)
Furniture and equipment	(633,496)	(186,240)	40,538	(779,198)
Vehicles	(410,875)	(1,991)	-	(412,866)
Total accumulated depreciation	<u>(2,362,595)</u>	<u>(249,202)</u>	<u>40,538</u>	<u>(2,571,259)</u>
Governmental activities capital assets, net	<u>\$ 1,389,448</u>	<u>\$ 189,379</u>	<u>\$ (487)</u>	<u>\$ 1,578,340</u>

Depreciation expense was charged to the governmental functions as follows:

<u>Instruction:</u>	
Regular	\$190,809
Special	28
Vocational	10,252
<u>Support Services:</u>	
Pupil	788
Instructional staff	22,876
Board of education	720
Administration	3,291
Fiscal	1,915
Business	744
Operations and maintenance	10,604
Pupil transportation	4,497
Food service operations	<u>2,678</u>
Total depreciation expense	<u>\$249,202</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - CAPITALIZED LEASES - LESEE DISCLOSURE

During fiscal year 2005, the District entered into capitalized leases for copier equipment and computers. These lease agreements met the criteria of a capital lease as defined by FASB Statement 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 have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$118,602. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. On the fund financial statements, principal payments in fiscal year 2005 totaled \$35,276 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 41,352
2007	41,352
2008	1,598
2009	1,598
2010	<u>1,197</u>
Total minimum lease payments	87,097
Less amount representing interest	<u>(3,771)</u>
Total	<u>\$ 83,326</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$ 311,733	\$ 16,211	\$ (54,258)	\$ 273,686	\$ 12,238
Capital lease		118,602	(35,276)	83,326	38,415
Energy conservation note	<u>120,232</u>	<u>-</u>	<u>(17,455)</u>	<u>102,777</u>	<u>18,415</u>
Total long-term obligations, governmental activities	<u>\$ 431,965</u>	<u>\$ 134,813</u>	<u>\$(106,989)</u>	<u>\$ 459,789</u>	<u>\$ 69,068</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)

Energy Conservation Note:

On November 1, 1999, the District issued unvoted long-term “energy conservation” notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District’s full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes and loans without voter approval, and the subsequent repayment of the notes from operating revenues. The notes bear an annual interest rate of 5.50% and mature November 1, 2009.

Compensated absences will be paid from the funds which the employees are paid.

- B.** The following is a summary of the District’s future annual debt service requirements to maturity for the energy conservation note:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	18,415	5,146	23,561
2007	19,428	4,106	23,534
2008	20,497	3,008	23,505
2009	21,624	1,849	23,473
2010	<u>22,813</u>	<u>627</u>	<u>23,440</u>
Total	<u>\$ 102,777</u>	<u>\$ 14,736</u>	<u>\$ 117,513</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$7,298,721, an unvoted debt margin of \$81,097, and an energy conservation debt margin of \$627,095.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The 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 District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Health Care Benefits

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association, a public entity risk management pool. Monthly payments are made to the Association for health, dental and vision insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120% of the prior year's aggregate claims. Individual coverage cannot exceed \$1,000,000 in claims during their lifetime. Financial information can be obtained by writing to the Erie-Ottawa Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

C. Workers' Compensation Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The 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% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$109,182, \$63,970, and \$50,395, respectively; 48.85% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$55,848 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLAN – (Continued)

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. 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$386,367, \$295,517, and \$297,642, respectively; 83.54% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$63,588 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$514 made by the District and \$4,754 made by plan members.

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 Systems/State Teachers Retirement System. As of June 30, 2005, no members of the Board of Education elected Social Security.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$27,598 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of the health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a 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. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claims. SERS had approximately 58,123 participants eligible to receive health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$109,193 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (425,603)
Net adjustment for revenue accruals	26,357
Net adjustment for expenditure accruals	(80,982)
Net adjustment for other sources/uses	126,502
Adjustment for encumbrances	<u>34,993</u>
GAAP basis	<u>\$ (318,733)</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 15 – CONTINGENCIES – (Continued)

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

NOTE 16 - STATUTORY RESERVES

The 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:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (157,296)	
Current year set-aside requirement	100,640	\$ 100,640
Current year offsets		(80,711)
Qualifying disbursements	<u>(98,850)</u>	<u>(22,858)</u>
 Total	 <u>\$ (155,506)</u>	 <u>\$ (2,929)</u>
 Cash balance carried forward to FY 2006	 <u>\$ (155,506)</u>	 <u>\$ -</u>

The District had qualifying disbursements during the year that reduced the capital acquisition set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.



**Auditor of State
Betty Montgomery**

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

Monroeville Local School District
Huron County
101 West Street
Monroeville, Ohio 44847-9797

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Monroeville Local School District, Huron County, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 26, 2006, in which we noted that the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 26, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 26, 2006, we reported another matter related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

June 26, 2006



**Auditor of State
Betty Montgomery**

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**MONROEVILLE LOCAL SCHOOL DISTRICT
HURON 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
JULY 13, 2006**