



**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Governmental-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund	17
Statement of Fund Net Assets – Internal Service Fund	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund	19
Statement of Cash Flows – Internal Service Fund	20
Statement of Fiduciary Asset and Liabilities – Fiduciary Fund	21
Notes to the Basic Financial Statements	23
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Auburn Vocational School District
Lake County
8140 Auburn Road
Concord Township, Ohio 44077

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Auburn Vocational School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Auburn Vocational School District, Lake County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparisons 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, 2004, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the 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

March 24, 2005

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management discussion and analysis of Auburn Vocational School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this management discussion and analysis is to look at the District's financial performance as a whole. Readers should review the basic financial statements and notes to those respective statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

In total, net assets increased by \$ 466,939.

Revenues for governmental activities totaled \$ 11,763,004 in 2004. Of this total, 87 percent consisted of General revenues while Program revenues accounted for the remaining balance of 13 percent.

Program expenses totaled \$ 11,296,065. Instructional expenses made up 42 percent of this total while support services accounted for 43 percent. Other expenses rounded out the remaining 15 percent.

Using the General Purpose Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand Auburn Vocational School District as a financial whole, or complete 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 and long-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of Auburn Vocational School District, the General Fund is the most significant.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" *The Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all 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 net 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 performance, demographic and socioeconomic factors and willingness of the community to support the District. On the other hand, financial factors may include the District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

In the *Statement of Net Assets* and the *Statement of Activities*, the District is classified into governmental activities. All of the District's programs and services are reported here including instruction, support services and operation of non-instructional services

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund begins on page 9. 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 major governmental fund is the General Fund.

Governmental Funds

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

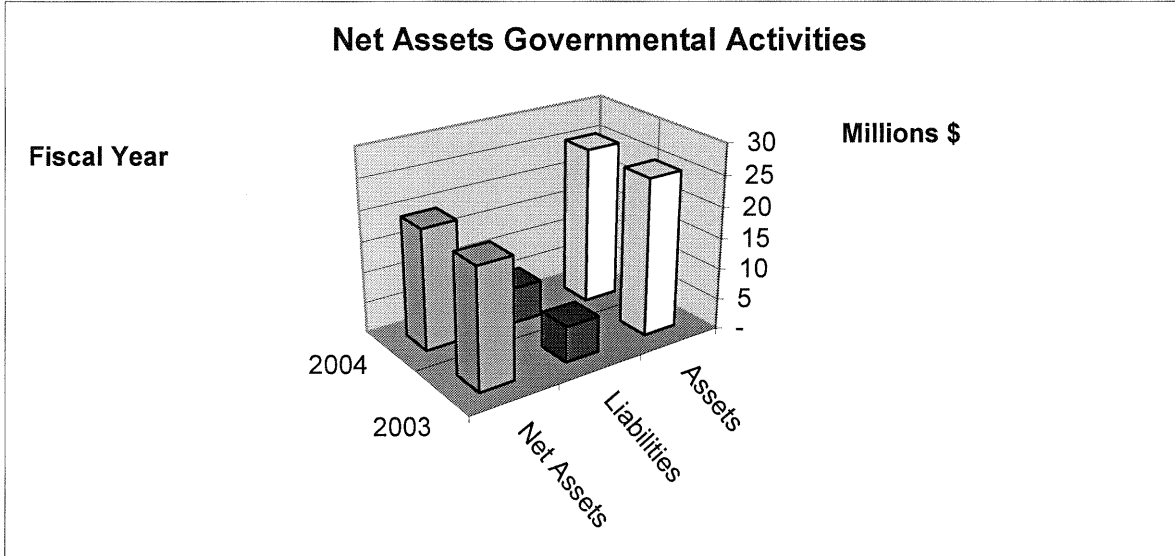
The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2004 compared to 2003:

**Table 1
NET ASSETS
GOVERNMENTAL ACTIVITIES**

Assets	2004	2003	VARIANCE
Current and Other Assets	\$ 11,478,742	\$ 11,245,743	\$ 232,999
Capital Assets, Net	<u>14,323,651</u>	<u>14,245,994</u>	<u>77,657</u>
Total Assets	<u>25,802,393</u>	<u>25,491,737</u>	<u>310,656</u>
Liabilities			
Current Liabilities	5,617,394	5,790,635	173,241
Long Term Liabilities			
Due within one year	13,603	7,142	(6,461)
Due within more than one year	<u>331,311</u>	<u>320,814</u>	<u>(10,497)</u>
Total Liabilities	<u>5,962,308</u>	<u>6,118,591</u>	<u>156,283</u>
Net Assets			
Invested in Capital Assets	14,323,651	14,245,994	77,657
Restricted for:			
Capital Projects	363,070	806,498	(443,428)
Set asides	48,386	48,386	--
Other purposes	180,924	442,225	(261,301)
Unrestricted	<u>4,924,054</u>	<u>3,830,043</u>	<u>1,094,011</u>
Total Net Assets	<u>\$ 19,840,085</u>	<u>\$ 19,373,146</u>	<u>\$ 466,939</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**



Governmental Activities

Total assets increased by \$ 310,656. The increase is the result of an increase in taxes receivable and capital assets offset by a decrease in cash, accounts receivable, due from other governments, and inventory.

Total liabilities decreased by \$ 156,283. The majority of the decrease can be attributed primarily to the decrease in accounts payable in the Capital Projects fund from 2003.

The vast majority of revenue supporting all Governmental Activities is General revenues. General revenue totaled \$ 10,279,268 or 87 percent of the total revenue. Two significant portions of the General revenue are local property tax and grants and entitlements, this constitutes 79 percent of total revenue. The remaining amount of revenue was in the form of program revenues that equated to \$1,483,736 or only 13 percent of total revenue.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

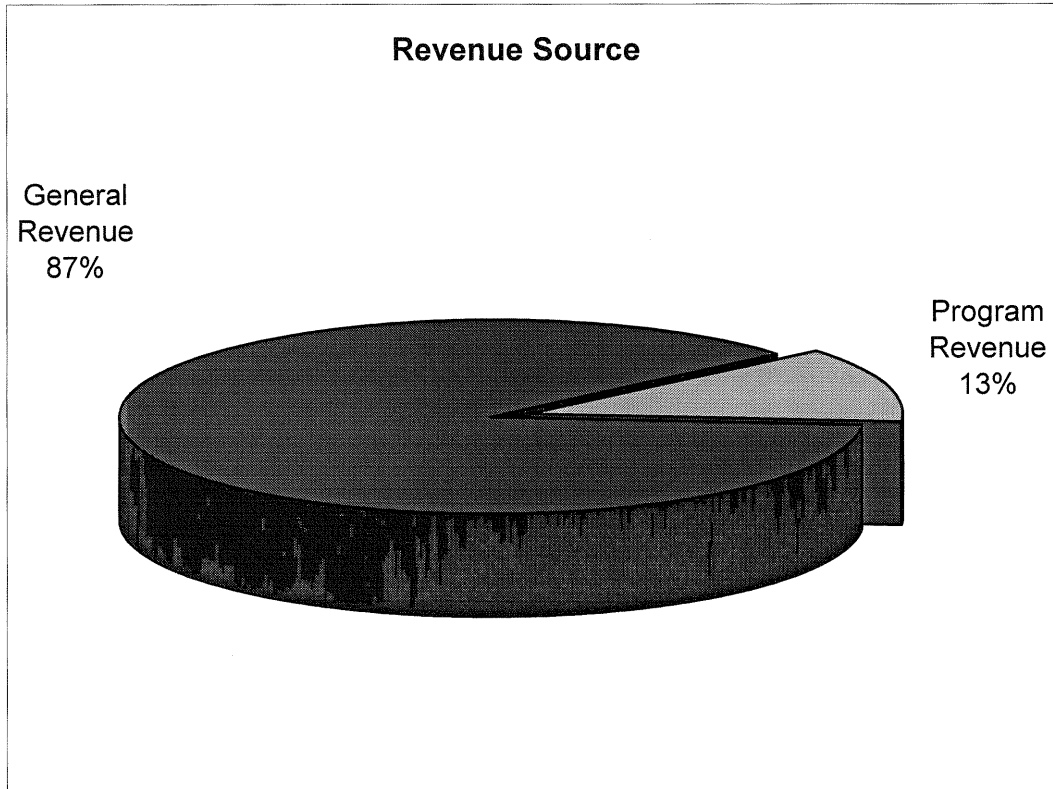
Table 2 summarizes the revenue, expenses and the changes in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2

Governmental Activities

	<u>2004</u>
Revenues	
Program Revenues	
Charges for Services and Sales	\$ 1,015,981
Operating Grants, and Contributions	464,755
Capital Grants	<u>3,000</u>
Total Program Revenues	<u>1,483,736</u>
General Revenue	
Property Taxes	6,154,360
Grants and Entitlements	3,184,929
Investment Earnings	53,641
Miscellaneous	<u>886,338</u>
Total General Revenues	<u>10,279,268</u>
Total Program & General Revenues	<u>\$ 11,763,004</u>
Program Expenses	
Instruction:	
Regular	\$ 227,436
Special	355,224
Vocational	3,534,486
Adult Continuing	655,729
Support Services:	
Pupil	1,192,549
Instructional Staff	204,680
Board of Education	53,288
Administration	1,173,253
Fiscal	451,075
Business	1,047
Operation and Maintenance of plant	1,643,113
Pupil Transportation	13,450
Central	163,760
Operation of Non-Instructional Services:	
Extracurricular Activities	6,068
Food Service	899,627
Other	<u>721,280</u>
Total Program Expenses	<u>\$ 11,296,065</u>
Increase in Net Assets	<u>\$ 466,939</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

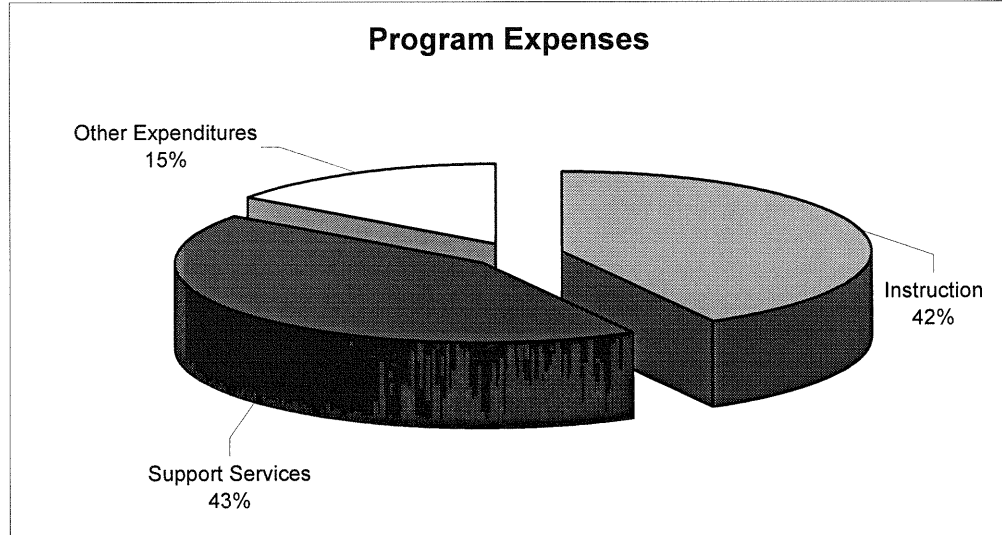


GOVERNMENTAL ACTIVITIES

The District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In October of 2004, the District submitted its yearly five-year forecast to the Ohio Department of Education. Based upon the current five-year financial forecast, the District has adequate operating funds for the next three (2005 – 2007) years. Although the District relies heavily upon local property taxes to support its operations, the District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 42 percent of the District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 43 percent. The remaining program expenses of 15 percent are budgeted to facilitate other obligations of the District, such as the food service program, numerous extracurricular activities and uniform school supplies.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**



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

Table 3

Governmental Activities	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$ 227,436	\$ (217,381)
Special	355,224	(355,224)
Vocational	3,534,486	(3,479,613)
Adult Continuing	655,729	352,232
Support Services:		
Pupil	1,192,549	(913,946)
Instructional Staff	204,680	(185,418)
Board of Education	53,288	(53,288)
Administration	1,173,253	(1,173,253)
Fiscal	451,075	(451,075)
Business	1,047	(1,047)
Operations and Maintenance of Plant	1,643,113	(1,640,113)
Pupil Transportation	13,450	(13,450)
Central	163,760	(157,252)
Operation of Non-Instructional:		
Food Service	899,627	(796,153)
Other	721,280	(721,280)
Extracurricular Activities	6,068	(6,068)
Total Program Expenses	<u>\$ 11,296,065</u>	<u>\$ (9,812,329)</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 54 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 28 percent, while investments and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 13 percent of all governmental expenses.

District Funds

Information regarding the District's major fund can be found on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 10,641,023 and expenditures of \$ 10,811,747. The net change in fund balances for the year was as follows: General Fund \$ 522,503, and Other Governmental Funds (\$ 690,727).

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 fund to be budgeted is the main operating fund of the District, the General Fund.

During the course of fiscal year 2004, the District amended its general fund budget several times, none significantly. Fluctuations among the budget base expenditures categories are due to the District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

Overall revenue received by the General Fund was less than revised budgetary projections by \$ 53,136 or .6%. The decrease was due primarily to tax revenue received from a personal property tax. Actual expenditures for the year were \$ 8,237,391 or 1.68% under General Fund budget projections. The decrease was due to lower than anticipated expenditures and management controls to reduce the expenditures. Fund unencumbered cash balance of \$ 3,956,379 that was \$ 3,907,992 higher than revised projections.

Capital Assets

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2004, the District had \$ 14,323,651 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2004 values compared to 2003. Please note that the FY 2003 Capital Assets are restated due to the change in the capitalization policy of the district, and the implementation of GASB 34.

Table 4

Capital Assets at June 30

Governmental Activities

	<u>2004</u>	<u>2003</u>
Land	\$ 905,830	\$ 702,811
Land Improvements	723,874	716,463
Building and Improvements	10,624,058	6,642,852
Furniture and Equipment	2,026,031	1,788,952
Vehicles	43,858	55,193
Construction in Progress	--	4,332,722
Library and Textbooks	--	7,001
Total Capital Assets	<u>\$14,323,651</u>	<u>\$14,245,994</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

During fiscal 2004, the District purchased \$ 819,775 of capital assets. Approximately 73 percent or \$ 599,920 was for furniture and equipment with the remaining 27 percent or \$219,855 for land, building and land improvements.

District Outlook

The District has a strong financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the District's Continuous Improvement Plan.

The District's financial future is not without challenges, though. The nature of school funding in Ohio severely restricts the growth in the District's operating revenues and requires the District to periodically seek additional funds from the taxpayers to offset rising operating costs.

In addition, the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions. In 2003, the Ohio General Assembly passed Amended Substitute House Bill 95 that will phase-out, the taxation on business inventories.

Financial aid from the State of Ohio through the State Foundation Program has not been as a major source of operating revenue for the Auburn Vocational School District. Because the District is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the District's administration continues to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration and the District's Task Force is currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the District's Financial Management

This report is designed to provide our citizens, taxpayers 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 any questions about this report or need additional financial information, contact Carolyn Bennett, Treasurer, at Auburn Vocational School District, 8140 Auburn Road, Concord Township, Ohio 44077.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,031,377
Cash with Fiscal Agent	186,487
Accounts Receivable	18,638
Accrued Interest	30,074
Intergovernmental Receivable	112,160
Internal Balances	750
Materials and Supplies Inventory	87,195
Prepaid Items	5,406
Taxes Receivable	6,006,655
Non-depreciable Capital Assets	905,830
Depreciable Capital Assets, Net	<u>13,417,821</u>
Total Assets	<u>25,802,393</u>
Liabilities	
Accounts Payable	31,216
Accrued Wages	610,283
Intergovernmental Payable	106,998
Claims Payable	104,955
Due to Students	1,781
Deferred Revenue	4,762,161
Long-term Liabilities:	
Due Within One Year	13,603
Due in More than One Year	<u>331,311</u>
Total Liabilities	<u>5,962,308</u>
Net Assets	
Invested in Capital Assets	14,323,651
Restricted for:	
Capital Projects	363,070
Other Purposes	180,924
Set-Asides	48,386
Unrestricted	<u>4,924,054</u>
Total Net Assets	<u><u>\$ 19,840,085</u></u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Governmental Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants	
Instruction:					
Regular	\$ 227,436	\$ -	\$ 10,055	\$ -	\$ (217,381)
Special	355,224	-	-	-	(355,224)
Vocational	3,534,486	-	54,873	-	(3,479,613)
Adult Continuing	655,729	913,257	94,704	-	352,232
Support Services:					
Pupil	1,192,549	-	278,603	-	(913,946)
Instruction Staff	204,680	-	19,262	-	(185,418)
Board of Education	53,288	-	-	-	(53,288)
Administration	1,173,253	-	-	-	(1,173,253)
Fiscal	451,075	-	-	-	(451,075)
Business	1,047	-	-	-	(1,047)
Operation and Maintenance of Plant	1,643,113	-	-	3,000	(1,640,113)
Pupil Transportation	13,450	-	-	-	(13,450)
Central	163,760	-	6,508	-	(157,252)
Operation of Non-Instructional Services					
Food Service	899,627	102,724	750	-	(796,153)
Other	721,280	-	-	-	(721,280)
Extracurricular Activities	6,068	-	-	-	(6,068)
Totals	\$ 11,296,065	\$ 1,015,981	\$ 464,755	\$ 3,000	\$ (9,812,329)

General Revenues

Property taxes levied for:

General purpose	\$ 6,154,360
Grants and entitlements not restricted to specific program	3,184,929
Investment earnings	53,641
Miscellaneous	<u>886,338</u>
Total General Revenues	10,279,268

Change in Net Assets	466,939
Net Assets Beginning of Year (Note 3)	<u>19,373,146</u>
Net Assets End of Year	<u>\$ 19,840,085</u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,069,690	\$ 961,687	\$ 5,031,377
Taxes Receivable	6,006,655	-	6,006,655
Accounts Receivable	453	18,185	18,638
Materials and Supplies Inventory	76,460	10,735	87,195
Intergovernmental Receivable	10,428	101,732	112,160
Interfund Receivable	207,377	-	207,377
Interest Receivable	30,074	-	30,074
Prepaid Items	5,406	-	5,406
	<u>\$ 10,406,543</u>	<u>\$ 1,092,339</u>	<u>\$ 11,498,882</u>
Total Assets			
	<u>\$ 10,406,543</u>	<u>\$ 1,092,339</u>	<u>\$ 11,498,882</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 2,222	\$ 28,994	\$ 31,216
Accrued Wages and Benefits	587,601	22,682	610,283
Interfund Payable	-	206,627	206,627
Intergovernmental Payable	95,137	11,861	106,998
Due to Students	-	1,781	1,781
Deferred Revenue	5,336,622	3,917	5,340,539
Total Liabilities	<u>6,021,582</u>	<u>275,862</u>	<u>6,297,444</u>
Fund Balances			
Reserved for Encumbrances	162,168	9,102	171,270
Reserved for Property Taxes	680,461	-	680,461
Budget Stabilization Reserve	48,386	-	48,386
Unreserved:			
Undesignated, reported in:			
General Fund	3,493,946	-	3,493,946
Special Revenue Funds	-	444,305	444,305
Capital Projects Fund	-	363,070	363,070
Total Fund Balances	<u>4,384,961</u>	<u>816,477</u>	<u>5,201,438</u>
	<u>\$ 10,406,543</u>	<u>\$ 1,092,339</u>	<u>\$ 11,498,882</u>
Total Liabilities and Fund Balances	<u>\$ 10,406,543</u>	<u>\$ 1,092,339</u>	<u>\$ 11,498,882</u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances	\$ 5,201,438
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	14,323,651
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: Delinquent Property Taxes	578,378
One internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	81,532
Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: Compensated Absences	<u>(344,914)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 19,840,085</u></u>

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,575,981	\$ -	\$ 5,575,981
Intergovernmental	2,850,132	802,549	3,652,681
Interest	53,641	-	53,641
Tuition and Fees	-	829,279	829,279
Charges for Services	-	100,224	100,224
Miscellaneous	351,491	77,726	429,217
Total Revenues	<u>8,831,245</u>	<u>1,809,778</u>	<u>10,641,023</u>
Expenditures			
Current:			
Instruction:			
Regular	-	30,280	30,280
Special	313,133	-	313,133
Vocational	2,991,273	187,961	3,179,234
Adult/Continuing	-	654,384	654,384
Support Services:			
Pupil	866,205	283,803	1,150,008
Instructional Staff	186,180	18,500	204,680
Board of Education	51,457	-	51,457
Administration	1,145,601	1,082	1,146,683
Fiscal	449,250	-	449,250
Business	1,047	-	1,047
Operation and Maintenance of Plant	1,615,582	4,500	1,620,082
Pupil Transportation	2,115	-	2,115
Central	116,251	34,185	150,436
Operation of Non-instructional Services:			
Food Service	61,166	125,908	187,074
Other	135,795	734,419	870,214
Extracurricular Activities	2,766	-	2,766
Capital Outlay	349,421	449,483	798,904
Total Expenditures	<u>8,287,242</u>	<u>2,524,505</u>	<u>10,811,747</u>
Excess of Revenues Over (Under) Expenditures	<u>544,003</u>	<u>(714,727)</u>	<u>(170,724)</u>
Other Financing Sources (Uses)			
Sale of Assets	2,500	-	2,500
Transfers In	-	63,497	63,497
Transfers Out	(24,000)	(39,497)	(63,497)
Total Other Financing Sources (Uses)	<u>(21,500)</u>	<u>24,000</u>	<u>2,500</u>
Net Change in Fund Balances	522,503	(690,727)	(168,224)
Fund Balances Beginning of Year - Restated (Note 3)	<u>3,862,458</u>	<u>1,507,204</u>	<u>5,369,662</u>
Fund Balances End of Year	<u>\$ 4,384,961</u>	<u>\$ 816,477</u>	<u>\$ 5,201,438</u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE 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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (168,224)

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 exceeded depreciation in the current period

Capital Asset Additions, Net	819,775	
Capital Asset Deletions, Net	(12,134)	
Current Year Depreciation	<u>(729,984)</u>	
Total		77,657

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

Delinquent property taxes	<u>578,377</u>	
Total		578,377

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities

(14,944)

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

Compensated Absences		<u>(5,927)</u>
----------------------	--	----------------

Changes in Net Assets of Governmental Activities \$ 466,939

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Revenue	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Taxes	\$ 5,495,202	\$ 5,464,523	\$ 5,430,535	\$ (33,988)
Intergovernmental	2,884,071	2,867,970	2,850,132	(17,838)
Interest	121,317	120,639	119,889	(750)
Tuition and Fees	622	619	615	(4)
Charges for Services	28,877	28,716	28,537	(179)
Miscellaneous	60,913	60,573	60,196	(377)
Total Revenues	<u>8,591,002</u>	<u>8,543,040</u>	<u>8,489,904</u>	<u>(53,136)</u>
Expenditures				
Current:				
Instruction:				
Special	333,626	323,724	308,696	15,028
Vocational	3,358,794	3,076,339	2,963,492	112,847
Support Services:				
Pupil	918,929	905,628	863,424	42,204
Instructional Staff	223,053	176,311	181,334	(5,023)
Board of Education	37,720	37,820	51,457	(13,637)
Administration	1,297,589	1,196,328	1,148,634	47,694
Fiscal	450,954	457,602	458,078	(476)
Business	1,219	1,219	1,047	172
Operation and Maintenance of Plant	1,726,834	1,662,638	1,687,127	(24,489)
Pupil Transportation	16,000	16,000	2,068	13,932
Central	211,249	176,723	116,242	60,481
Operation of Non-instructional Services	67,279	67,079	62,442	4,637
Extracurricular Activities	3,500	3,939	2,766	1,173
Capital Outlay	283,997	277,404	390,584	(113,180)
Total Expenditures	<u>8,930,743</u>	<u>8,378,754</u>	<u>8,237,391</u>	<u>141,363</u>
Excess of Revenues Over (Under) Expenditures	<u>(339,741)</u>	<u>164,286</u>	<u>252,513</u>	<u>88,227</u>
Other Financing Sources (Uses)				
Advances In	139,673	138,893	138,029	(864)
Advances Out	(100,000)	(160,000)	(160,750)	(750)
Transfers In	19,655	19,546	-	(19,546)
Transfers Out	(2,985,324)	(3,866,582)	(24,000)	3,842,582
Refund of Prior Years Expenditures	265,242	263,762	262,121	(1,641)
Sale of Assets	2,530	2,516	2,500	(16)
Total Other Financing Sources (Uses)	<u>(2,658,224)</u>	<u>(3,601,865)</u>	<u>217,900</u>	<u>3,819,765</u>
Net Change in Fund Balance	<u>(2,997,965)</u>	<u>(3,437,579)</u>	<u>470,413</u>	<u>3,907,992</u>
FUND BALANCES - BEGINNING OF YEAR	<u>3,227,530</u>	<u>3,227,530</u>	<u>3,227,530</u>	<u>-</u>
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	<u>258,435</u>	<u>258,436</u>	<u>258,436</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 488,000</u>	<u>\$ 48,387</u>	<u>\$ 3,956,379</u>	<u>\$ 3,907,992</u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets	
Cash with Fiscal Agent	<u>\$ 186,487</u>
Total Assets	<u>\$ 186,487</u>
Liabilities	
Claims Payable	<u>\$ 104,955</u>
Total Liabilities	<u>\$ 104,955</u>
Net Assets	
Unrestricted	<u>81,532</u>
Total Net Assets	<u><u>\$ 81,532</u></u>

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund <hr style="border: 0.5px solid black;"/>
Operating Revenues	
Changes for Services	\$ 534,853
Operating Expenses	
Claims	<hr style="border: 0.5px solid black;"/> 549,797
Operating Loss	(14,944)
Net Assets Beginning Year	<hr style="border: 0.5px solid black;"/> 96,476
Net Assets End of Year	<hr style="border: 1px solid black;"/> \$ 81,532

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

AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities Internal Service Fund <u> </u>
Increase (Decrease) in Cash with Fiscal Agent	
Cash Flows from Operating Activities	
Cash Received from Interfund Services	\$ 534,853
Cash Payments for Claims	<u>(527,938)</u>
Net Cash Used in Operating Activities	<u>6,915</u>
Cash with Fiscal Agents - Beginning of Year	<u>179,572</u>
Cash with Fiscal Agents - End of Year	<u><u>\$ 186,487</u></u>
Reconciliation of Operating Income to Net Cash	
Used in Operating Activities	
Operating Loss	\$ (14,944)
Adjustment:	
Increase in Claims Payable	<u>21,859</u>
Net Cash Used In Operating Activities	<u><u>\$ 6,915</u></u>

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FIDUCIARY ASSET AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2004**

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 60,975</u>
Total Assets	<u><u>\$ 60,975</u></u>
Liabilities	
Interfund Payable	\$ 750
Due to Students	<u>60,225</u>
Total Liabilities	<u><u>\$ 60,975</u></u>

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

This page intentionally left blank.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Note 1 – Description of the District and Reporting Entity

The Auburn Vocational School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Auburn Vocational School District is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. This District operates under an elected Board of Education (11 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of June 30, 2004 was 571. The District employed 156 certificated employees and 46 non-certificated employees.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements are not misleading. The primary government of the District consists of only the funds of those organizational entities for which its elected governing body is financially accountable. For the District, this includes education, pupil transportation, food service and maintenance of the District facilities.

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 organization's governing 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 organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District has no component units.

The District participates in two jointly governed organizations, a claims servicing pool and an insurance purchasing pool. These organizations are the, the Ohio Schools Council, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Lake-Geauga Computer Association and Lake County Council of Governments Health Care Benefits Program. These organizations are discussed in Notes 14, 15 and 16 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Auburn Vocational School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting 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 and internal service fund unless those pronouncements conflict or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

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

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 the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Funds – Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise or internal service.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Fiduciary Fund – 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary fund includes an agency fund which accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

D. Basis of Accounting

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Non-exchange 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 non-exchange 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, fees and rentals.

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

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

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

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

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including the internal service fund, are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2004, investments were limited to STAROhio, certificates of deposit, corporate cash and Federal Securities. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts are reported at cost.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Following Ohio statues, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year 2004 amounted to \$ 53,641.

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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months, not purchased from the pool, are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws or other governments or imposed by enabling legislation. Restricted assets in the general fund include amounts required by State statute to be set aside for budget stabilization. See Note 20 for additional information.

G. Prepaid Items

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

H. Inventory

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

Inventories consist of donated foods, purchased foods and school supplies held for resale and material and supplies for consumption.

I. Capital Assets

All capital assets are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$ 5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and improvements	10 - 50 years
Furniture and equipment	5 - 10 years
Vehicles	10 years
Text books	6 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits in the District's termination policy. The District records a liability for accumulated unused sick leave for classified, certified and administrative employees after fifteen years of service with the District.

L. Accrued Liabilities and Long-Term Obligations

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

P. 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 and after non-operating revenues/expenses in internal service funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. This District had no extraordinary or special items.

R. Estimates

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

S. Budgetary Data

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles – For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements, which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (Continued)

On the government-wide financial statements, the beginning net assets amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the reclassification of the funds based on the guidance provided in Statement No. 34, which includes reclassifying enterprise funds as special revenue funds for reporting purposes.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance – For the District, it was determined that enterprise funds should be reclassified as general and/or special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balances, June 30, 2003	\$ 3,634,680	\$ 1,746,971	\$ 5,381,651
Changes in fund structure	217,076	(240,094)	(23,018)
Interpretation 6:			
Compensated absences payable	<u>10,702</u>	<u>327</u>	<u>11,029</u>
Restated fund balances, June 30, 2003	<u>\$ 3,862,458</u>	<u>\$ 1,507,204</u>	5,369,662
GASB 34 Adjustments:			
Capital assets			<u>14,245,994</u>
Long-term liabilities:			
Compensated absences payable			(338,986)
Internal Service Fund net assets			<u>96,476</u>
Governmental activities net assets June 30, 2003			<u>\$ 19,373,146</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 4 – Compliance and Accountability

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of June 30, 2004:

	Deficit Fund Balance
Special Revenue Funds:	
Adult Education Short Term	\$ 27,562
Adult Full Service 2004	\$ 4,919
Career Development 2004	\$ 11,984
High Schools That Work 2004	\$ 3,599
Able 2004	\$ 2,099
Cares Literacy 2004	\$ 5,623
VEPD Secondary 2004	\$ 73,996
VEPD Adult 2004	\$ 1,612

The deficit in the special revenue funds resulted from the recognition of accrued liabilities. The general fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than when accruals occur.

B. Compliance and Accountability

The Safe Schools, Special Revenue Fund had expenditures plus encumbrances of in excess appropriation in the amount of \$ 2,496 as of December 31, 2003, contrary to Section 5705.41(B) & (D) of Ohio Revised Code. This fund was corrected at year end.

The District had a negative unencumbered fund balance at June 30, 2004 in the Lunchroom, Special Revenue Fund, in the amount of \$ 1,797 contrary to Section 5705.10 of Ohio Revised Code.

Note 5 – Budgetary Basis of Accounting

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual 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 GAAP basis are as follows:

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 5 – Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	<u>Net Change in Fund Balance</u>
GAAP basis	\$ 522,503
Net adjustment for Revenue accruals	(79,220)
Advance In	138,029
Net adjustment for Expenditure accruals	214,242
Advance Out	(160,750)
Adjustment for Encumbrances	<u>(164,391)</u>
Budget basis	<u>\$ 470,413</u>

Note 6 – 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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 6 – Deposits and Investments (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At June 30, 2004, the District's self-insurance internal service fund had a balance of \$ 186,487 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool was determined based on the percentage of the District's participants to total pool participants (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Lake County Educational Service Center. To obtain financial information, write to the Treasurer, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 6 – Deposits and Investments (Continued)

Cash on Hand – At fiscal year end, the District had \$ 1,055 in undeposited cash on hand, which is included in the balance sheet of the District as part of equity in pooled cash and cash equivalents.

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

Deposits – At fiscal year end, the carrying amount of the District's deposits was \$ 1,785,345 and bank balance was \$ 2,026,265. \$ 1,794,000 of the bank balance was covered by federal depository insurance. \$ 232,265 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments – The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department of agency but not in the District's name. The District investments in STAROhio, the State Treasurer's Investment Pool, which is not classified by degree of credit risk since it is not evidence by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Federal Home Loan Mortgage Corporation	\$ 1,423,393	\$ 1,423,393	\$ 1,423,393
Federal National Mortgage Association notes	422,789	422,789	422,789
Federal Home Loan Bank notes	1,241,128	1,241,128	1,241,128
Federal Farm Credit Bank	153,810	153,810	153,810
Corporate cash	205	205	205
STAROhio	--	64,627	64,627
	<u>\$ 3,241,325</u>	<u>\$ 3,305,952</u>	<u>\$ 3,305,952</u>

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 6 – Deposits and Investments (Continued)

The classification of cash and cash equivalents and investments on the combined general purpose financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined general purpose financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,278,839	\$ --
Money held by health care program's fiscal agent	(186,487)	--
Cash on hand	(1,055)	--
Investments of cash management pool:		
Federal Home Loan Mortgage Corp.	(1,423,393)	1,423,393
Federal National Mortgage Association notes	(422,789)	422,789
Federal Home Loan Bank Notes	(1,241,128)	1,241,128
Federal Farm Credit Bank	(153,810)	153,810
Corporate cash	(205)	205
STAROhio	(64,627)	64,627
GASB Statement No. 3	<u>\$ 1,785,345</u>	<u>\$ 3,305,952</u>

Note 7 – Property Taxes

Property taxes are levied and assessed on a calendar year basis while the District's 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 distributions occur in the first half of the following 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 2004 represents collections of calendar 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 7 – Property Taxes (Continued)

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003 on the value as of December 31, 2003. 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 Lake 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2004 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 to the District as an advance at June 30, 2004 was \$ 680,461 in the General Fund. The amount available as an advance at June 30, 2003, was \$ 535,015 in the General 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 2004 taxes were collected are:

	2003 Second Half Collections Lake County		2003 Second Half Collections Geauga County	
	Amount	Percent	Amount	Percent
Real Property - 2003 valuation				
Residential/Agricultural	\$ 1,295,274,780	62.91%	\$ 1,187,711,530	74.76%
Commercial/Industrial	351,233,550	17.06	199,600,860	12.56
Tangible personal property				
General	148,303,764	7.20	152,711,570	9.61
Public Utilities	264,204,160	12.83	48,774,440	3.07
Total	<u>\$ 2,059,016,254</u>	<u>100.00%</u>	<u>\$ 1,588,798,400</u>	<u>100.00%</u>
Tax rate per \$ 1,000 of assessed valuation	\$1.50		\$ 1.50	
	2004 Second Half Collections Lake County		2004 Second Half Collections Geauga County	
	Amount	Percent	Amount	Percent
Real Property - 2004 valuation				
Residential/Agricultural	\$ 1,570,615,510	69.77%	\$ 1,433,906,420	77.46%
Commercial/Industrial	323,704,750	14.38	217,509,870	11.75
Tangible personal property				
General	124,580,417	5.53	150,322,790	8.12
Public Utilities	232,326,430	10.32	49,425,140	2.67
Total	<u>\$ 2,251,227,107</u>	<u>100.00%</u>	<u>\$ 1,851,164,220</u>	<u>100.00%</u>
Tax rate per \$ 1,000 of assessed valuation	\$1.50		\$ 1.50	

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 8 – Receivables

Receivables at June 30, 2004 consisted of taxes, interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year. The following is a summary of the intergovernmental receivables.

	Amount
Governmental Activities:	
Instruction	\$ 24,137
Support services	77,595
General purpose	10,428
Total intergovernmental receivables	\$ 112,160

Note 9 – Capital Assets

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

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 702,811	\$ 203,019	\$ --	\$ 905,830
Construction in Progress	4,332,722	--	(4,332,722)	--
Total Capital Assets, not being depreciated	5,035,533	203,019	(4,332,722)	905,830
Capital Assets, being depreciated				
Land Improvements	1,005,489	40,296	--	1,045,785
Building and Building Improvements	10,011,250	4,309,262	--	14,320,512
Furniture and Equipment	3,591,481	599,920	(84,038)	4,107,363
Vehicles	170,920	--	(18,200)	152,720
Library and Text Books	84,008	--	--	84,008
Total capital assets being depreciated	14,863,148	4,949,478	(102,238)	19,710,388
Less Accumulated Depreciation				
Land Improvements	(289,026)	(32,885)	--	(321,911)
Building and Building Improvements	(3,368,398)	(328,056)	--	(3,696,454)
Furniture and Equipment	(1,802,529)	(350,707)	71,904	(2,081,332)
Buses and Other Vehicles	(115,727)	(11,335)	18,200	(108,862)
Library and Text Books	(77,007)	(7,001)	--	(84,008)
Total Accumulated Depreciation	(5,652,687)	(729,984)	90,104	(6,292,567)
Total Capital Assets being depreciated, net				
Governmental Activities				
Capital Assets, Net	\$ 14,245,994	\$ 4,422,513	\$(4,344,856)	\$ 14,323,651

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 9 – Capital Assets – (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 227,437
Special	11,102
Vocational	339,323
Support Services:	
Pupil	43,452
Board of Education	1,831
Administration	16,124
Fiscal	--
Business	--
Operation and maintenance of plant	25,019
Pupil transportation	11,335
Central	13,323
Operation of non-instructional services	37,735
Extracurricular activities	3,303
Total depreciation expense	<u>\$ 729,984</u>

Note 10 – Risk Management

A. Property and Liability

The District is a member of the Ohio Schools Council Insurance Company property and fleet insurance purchasing group. On behalf of member school districts, the Ohio Schools Council prepares specifications and solicits quotations from insurance companies. The District fleet was insured with Hartford Insurance with a \$ 1,000,000 liability limit per loss. Hartford Insurance carried the property insurance (which includes inland, marine, earthquake and crime), and also covered the boilers and machinery.

Since school districts are not protected by the doctrine of sovereign immunity, the District contracted with Ohio School Plan (through the Ohio School Boards Association/Nationwide Ohio Educational Liability Insurance program) for coverage with limits of liability of \$ 1,000,000 per claim and \$ 3,000,000 aggregate to insure the District, the board, all board members, all administrators, certified and classified employees and volunteers.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). 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 district 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.

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 10 – Risk Management (Continued)

A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insured program. The District uses the General Fund on the Budgetary Basis and the Self Insurance internal service fund on a GAAP Basis to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110 percent of expected claims. The claims liability as reported in the Self Insurance internal service fund was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The June 30, 2004 claims liability was determined based on the percentage of the District’s participants to total pool participants. For the year ended June 30, 2004, the pools cash reserves and claims liability were \$ 6,636,537 and \$ 3,735,014, respectively. The District’s allocated pool percentage for the year ended June 30, 2004 was 9 percent, which represents \$ 186,487 and \$ 104,955 of pool cash reserves and claims liabilities, respectively.

	Balance at Beginning <u>of Year</u>	Current Year <u>Claims</u>	Current Year <u>Payments</u>	Balance at End of <u>Year</u>
2004	\$ 83,096	\$ 555,700	\$ 533,841	\$ 104,955
2003	\$ 83,307	\$ 472,683	\$ 472,894	\$ 83,096

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 11 – Defined Benefit Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$ 129,832, \$ 115,373 and \$ 101,492, respectively; 100 percent has been contributed for fiscal year's 2004, 2003 and 2002.

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. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, OH 43215-3771 or by calling (614) 227-4090.

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

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

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 11 – Defined Benefit Pension Plans (Continued)

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003 and 2002 were \$ 555,523, \$ 541,036 and \$ 500,676, respectively; 93.6 percent has been contributed for fiscal year 2004, and 100 percent for the fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$ 657 made by the District and \$ 22,435 made by the Plan members.

Note 12 – Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 39,680 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay was established at \$ 25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$ 87,278.

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 13 – Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, an employee is paid for the accumulated sick days over 30 days annually up to a maximum of 318 accumulated sick days.

Note 14 – Jointly Governed Organizations

A. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the District paid \$ 3,850 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, OH 44131.

The District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 14 – Jointly Governed Organizations (Continued)

B. Lake-Geauga Computer Association

The Lake-Geauga Computer Association (LGCA) is a jointly governed organization among two county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LGCA based on a per pupil charge. LGCA is governed by an Assembly consisting of two representatives from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Assembly. Continued existence of the LGCA Computer Center is not dependent on the District's continued participation. Financial information can be obtained from LGCA, 8221 Auburn Road, Painesville, OH 44077.

Note 15 – Insurance Purchasing Pool

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

Note 16 – Claims Servicing Pool

The District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of eleven Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five-member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one-year terms to serve on the Board of Directors. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

Note 17 – Contingencies

A. Grants

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

B. Litigation

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 18 – Interfund Transactions

Transfers made during the year ended June 30, 2004 were as follows:

<u>Transfer To</u> <u>Governmental Activities</u>	<u>Transfer From</u> <u>Governmental Activities</u>	
	<u>General</u>	<u>Non-Major Funds</u>
Non-major funds	\$ 24,000	\$ 39,497
Total governmental	<u>\$ 24,000</u>	<u>\$ 39,497</u>

Note 19 – State School Funding Decision

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

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

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

Note 20 – Set-Asides

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization.

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

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 20 – Set-Asides (Continued)

	Textbooks Instructional Materials Reserve	Capital Improve- ments Reserve
Set-aside reserve balance as of June 30, 2003	\$ (391,712)	\$ --
Current year set-aside requirement	41,831	41,831
Qualifying disbursements	<u>(14,740)</u>	<u>(528,781)</u>
Totals	<u>\$ (364,621)</u>	<u>\$ (486,950)</u>
Set-aside balance as of June 30, 2004 and carried forward to future fiscal years	<u>\$ --</u>	<u>\$ --</u>

Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero, only the excess expenditures for the textbook reserve can be carried forward to the next fiscal year.

Note 21 – Long-Term Obligations

Changes in long-term obligations of the District during fiscal year 2004 were as follows:

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004	Amounts Due In One Year
Compensated absences	<u>\$ 327,956</u>	<u>\$ 131,987</u>	<u>\$ 115,029</u>	<u>\$ 344,914</u>	<u>\$ 13,603</u>
Total Long-Term Obligations	<u>\$ 327,956</u>	<u>\$ 131,987</u>	<u>\$ 115,029</u>	<u>\$ 344,914</u>	<u>\$ 13,603</u>

Compensated absences will be paid from the fund from which the employees' are paid.

Note 22 – Subsequent Events

In March 2005, the District purchased two properties, one at Girdle Road for \$ 250,000 and the other at Auburn Road for \$ 290,000.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Education
Auburn Vocational School District
Lake County
8140 Auburn Road
Concord Township, Ohio 44077

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Auburn Vocational School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 24, 2005.

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 for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 24, 2005.

Auburn Vocational School District
Lake County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of audit committee, management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 24, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**AUBURN VOCATIONAL SCHOOL DISTRICT
LAKE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 26, 2005**