



**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Area Vocational School District
Stark County
6805 Richville Drive SW
Massillon, Ohio 44646

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Stark County Area Vocational School District, Stark 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 Stark County Area Vocational School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof 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 Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In addition as described in Note 8, the District increased its capitalization threshold for capital assets from \$500 to \$5,000.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004, 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion 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

December 15, 2004

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Stark County Area 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 discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$867,459 which represents a 7.70% increase from 2003.
- General revenues accounted for \$6,410,516 in revenue or 80.42% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,560,343 or 19.58% of total revenues of \$7,970,859.
- The District had \$7,103,400 in expenses related to governmental activities; \$1,560,343 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,410,516 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,411,299 in revenues and other financing sources and \$9,069,492 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$1,658,193 from \$8,601,504 to \$6,943,311.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental 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 only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets on pages 21-22 of this report. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities 2004
<u>Assets</u>	
Current and other assets	\$ 10,045,468
Capital assets, net	5,779,182
Total assets	15,824,650
<u>Liabilities</u>	
Current liabilities	2,869,083
Long-term liabilities	820,161
Total liabilities	3,689,244
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,737,262
Restricted	15,127
Unrestricted	6,383,017
Total net assets	\$ 12,135,406

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$12,135,406. Of this total, \$6,383,017 is unrestricted in use.

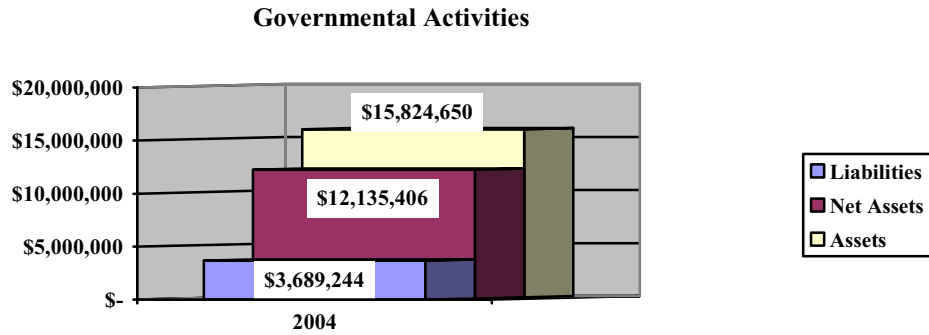
At year-end, capital assets represented 36.52% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$5,737,262. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$15,127, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,383,017 may be used to meet the District's ongoing obligations to the students and creditors.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below illustrates the District's governmental activities assets, liabilities and net assets at June 30, 2004.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,177,298
Operating grants and contributions	383,045
General revenues:	
Property taxes	2,066,836
Grants and entitlements	4,248,951
Investment earnings	68,943
Gain on sale of capital assets	50
Other	<u>25,736</u>
 Total revenues	 <u>7,970,859</u>

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 372,783
Special	85,658
Vocational	4,005,729
Support services:	
Pupil	659,643
Instructional staff	382,867
Board of education	23,634
Administration	270,500
Fiscal	204,762
Business	4,179
Operations and maintenance	790,617
Central	79,992
Food service operations	181,690
Extracurricular activities	37,502
Interest and fiscal charges	<u>3,844</u>
Total expenses	<u>7,103,400</u>
Change in net assets	<u>\$ 867,459</u>

Governmental Activities

Net assets of the District's governmental activities increased \$867,459. Total governmental expenses of \$7,103,400 were offset by program revenues of \$1,560,343 and general revenues of \$6,410,516. Program revenues supported 21.97% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 79.24% of total governmental revenue.

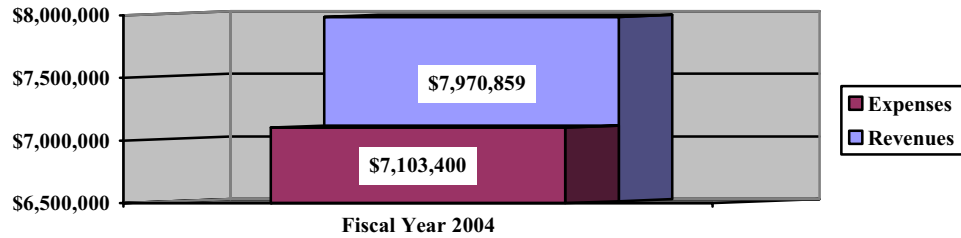
The largest expense of the District is for instructional programs, primarily vocational instruction. Instruction expenses totaled \$4,464,170 or 62.85% of total governmental expenses for fiscal 2004.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

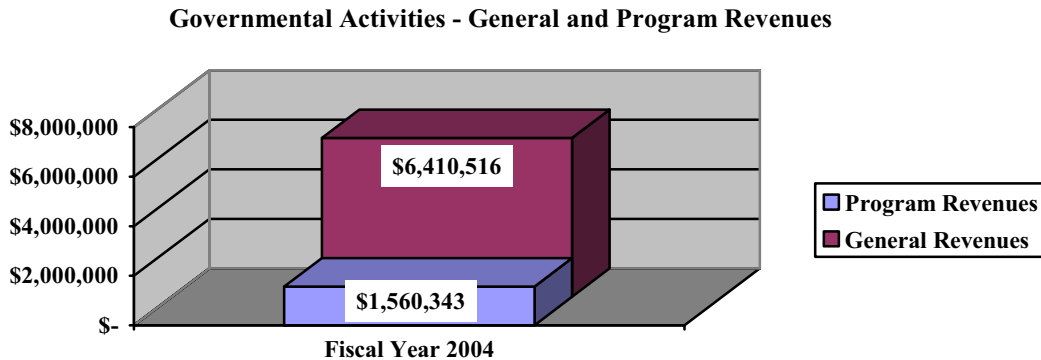
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 372,783	\$ 368,390
Special	85,658	46,416
Vocational	4,005,729	2,955,765
Support services:		
Pupil	659,643	574,121
Instructional staff	382,867	354,093
Board of education	23,634	23,634
Administration	270,500	255,234
Fiscal	204,762	204,762
Business	4,179	4,179
Operations and maintenance	790,617	645,677
Central	79,992	54,856
Food service operations	181,690	14,584
Extracurricular activities	37,502	37,502
Interest and fiscal charges	3,844	3,844
Total expenses	<u>\$ 7,103,400</u>	<u>\$ 5,543,057</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 75.50% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.03%. The District's intergovernmental revenues, as a whole, are by far the primary support for District's students.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$6,993,938, which is lower than last year's total of \$8,522,696. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 6,943,311	\$ 8,601,504	\$ (1,658,193)	(19.28) %
Other Governmental	50,627	(78,808)	129,435	164.24 %
Total	<u>\$ 6,993,938</u>	<u>\$ 8,522,696</u>	<u>\$ (1,528,758)</u>	(17.94) %

General Fund

The District's general fund balance decreased \$1,658,193 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$1,637,102. The increase in expenditures is due to the facilities acquisition and construction costs related to the new building addition, which totaled \$2,592,050 in fiscal 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 2,084,060	\$ 2,128,480	\$ (44,420)	(2.09) %
Earnings on investments	55,478	114,625	(59,147)	(51.60) %
Intergovernmental	4,248,951	4,323,917	(74,966)	(1.73) %
Other revenues	<u>1,022,760</u>	<u>933,588</u>	<u>89,172</u>	9.55 %
 Total	 <u>\$ 7,411,249</u>	 <u>\$ 7,500,610</u>	 <u>\$ (89,361)</u>	 (1.19) %
<u>Expenditures</u>				
Instruction	\$ 4,188,325	\$ 4,169,644	\$ 18,681	0.45 %
Support services	2,215,445	1,877,883	337,562	17.98 %
Extracurricular activities	37,502	10,872	26,630	244.94 %
Facilities acquisition and construction	2,592,050	-	2,592,050	100.00 %
Capital outlay	-	61,922	(61,922)	(100.00) %
Debt service	<u>15,029</u>	<u>12,524</u>	<u>2,505</u>	20.00 %
 Total	 <u>\$ 9,048,351</u>	 <u>\$ 6,132,845</u>	 <u>\$ 2,915,506</u>	 47.54 %

The increase in support services is primarily due to the staffing changes which occurred between 2003 and 2004. The salaries and benefits for four employees were reported as instruction expenditure in 2003 and are now reported as support service expenditure in 2004. The increase in facilities acquisition and construction expenditure was due to the construction of a new auditorium, science and math center, warehouse and a science lab utilized for professional development. Capital outlay decreased as there was a capital lease entered into during 2003 and no capital leases entered into during 2004.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,694,934 and final budgeted revenues and other financing sources were \$7,744,525. Actual revenues and other financing sources for fiscal 2004 was \$7,877,342. This represents a \$182,408 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$7,424,981, which were increased to \$9,795,811 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$9,714,335, which was lower than the final budget appropriations by \$81,476.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$5,779,182 invested in land, buildings and improvements, furniture and equipment and vehicles. The balance of the Districts capital assets at June 30, 2003 has been restated as described in Note 8 to the basic financial statements. This entire amount is reported in governmental activities.

The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>2004</u>	<u>2003</u>
Land	\$ 144,865	\$ 144,865
Building and improvements	4,974,061	2,542,792
Furniture and equipment	653,108	488,868
Vehicles	<u>7,148</u>	<u>25,665</u>
 Total	 <u>\$ 5,779,182</u>	 <u>\$ 3,202,190</u>

The overall increase in capital assets of \$2,576,992 is due to capital outlays of \$2,832,816 exceeding depreciation expense of \$255,824 in the fiscal year. \$2,615,074 of the increase is a result of the construction of a new auditorium, science and math center, warehouse and a science lab utilized for professional development.

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

Debt Administration

At June 30, 2004, the District had \$41,920 in capital lease obligations outstanding. Of this total, \$12,113 is due within one year and \$29,807 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
Capital lease obligations	\$ 41,920	\$ 53,105
 Total	 <u>\$ 41,920</u>	 <u>\$ 53,105</u>

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Current Financial Related Activities

The District's current financial forecast supports financial stability over the next five years. The greatest challenge in maintaining a stable financial forecast is the uncertainty of future state funding. The District relies on the state for approximately 55% of the general operating revenues. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed additional revenue growth toward the support of school districts with little property tax wealth. At this time, the District is unable to determine what effect, if any, this decision will have on future State funding.

The District teamed up with the Stark County Educational Service Center to build a 20,000 square foot auditorium/professional development center in fiscal year 2004. The estimated \$3,000,000 facility was built with all general fund monies.

There are currently no anticipated needs for any additional operating levies if the assumptions listed in the five-year forecast prove to be correct.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Bartholomew, Treasurer, Stark County Area Vocational School District, 6805 Richville Drive SW, Massillon, Ohio 44646-9433.

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**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,971,499
Receivables:	
Taxes	2,301,411
Accounts	578
Intergovernmental	746,425
Accrued interest	13,465
Prepayments	5,860
Materials and supplies inventory	6,230
Capital assets:	
Land	144,865
Depreciable capital assets, net	5,634,317
Total capital assets, net.	5,779,182
 Total assets.	 15,824,650
 Liabilities:	
Accounts payable.	150,800
Accrued wages and benefits	560,730
Pension obligation payable.	84,045
Intergovernmental payable	47,879
Deferred revenue	2,025,629
Long-term liabilities:	
Due within one year.	69,246
Due within more than one year	750,915
 Total liabilities	 3,689,244
 Net Assets:	
Invested in capital assets, net	
of related debt.	5,737,262
Restricted for:	
Other purposes	15,127
Unrestricted.	6,383,017
 Total net assets	 \$ 12,135,406

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 372,783	\$ 4,393	\$ -	\$ (368,390)
Special	85,658	-	39,242	(46,416)
Vocational	4,005,729	904,323	145,641	(2,955,765)
Support services:				
Pupil	659,643	-	85,522	(574,121)
Instructional staff	382,867	-	28,774	(354,093)
Board of education	23,634	-	-	(23,634)
Administration	270,500	-	15,266	(255,234)
Fiscal	204,762	-	-	(204,762)
Business	4,179	-	-	(4,179)
Operations and maintenance	790,617	144,940	-	(645,677)
Central	79,992	-	25,136	(54,856)
Food service operations	181,690	123,642	43,464	(14,584)
Extracurricular activities	37,502	-	-	(37,502)
Interest and fiscal charges	3,844	-	-	(3,844)
Total governmental activities	<u>\$ 7,103,400</u>	<u>\$ 1,177,298</u>	<u>\$ 383,045</u>	<u>(5,543,057)</u>

General Revenues:

Property taxes levied for:	
General purposes	2,066,836
Grants and entitlements not restricted to specific programs	4,248,951
Investment earnings	68,943
Gain on sale of capital assets	50
Miscellaneous	25,736
Total general revenues	<u>6,410,516</u>
Change in net assets	867,459
Net assets at beginning of year (restated) .	<u>11,267,947</u>
Net assets at end of year	<u><u>\$ 12,135,406</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 6,793,842	\$ 177,657	\$ 6,971,499
Receivables:			
Taxes	2,301,411	-	2,301,411
Accounts	578	-	578
Intergovernmental	708,741	37,684	746,425
Accrued interest	13,373	92	13,465
Interfund receivable	113,070	-	113,070
Prepayments	5,860	-	5,860
Materials and supplies inventory	-	6,230	6,230
Total assets	<u>\$ 9,936,875</u>	<u>\$ 221,663</u>	<u>\$ 10,158,538</u>
Liabilities:			
Accounts payable	\$ 145,148	\$ 5,652	\$ 150,800
Accrued wages and benefits	541,628	19,102	560,730
Compensated absences payable	28,925	-	28,925
Pension obligation payable	69,068	2,627	71,695
Intergovernmental payable	46,280	1,599	47,879
Interfund payable	-	113,070	113,070
Deferred revenue	2,162,515	28,986	2,191,501
Total liabilities	<u>2,993,564</u>	<u>171,036</u>	<u>3,164,600</u>
Fund Balances:			
Reserved for encumbrances	360,234	20,656	380,890
Reserved for prepayments	5,860	-	5,860
Reserved for property tax unavailable for appropriation	152,269	-	152,269
Unreserved, undesignated, reported in:			
General fund	6,424,948	-	6,424,948
Special revenue funds	-	29,971	29,971
Total fund balances	<u>6,943,311</u>	<u>50,627</u>	<u>6,993,938</u>
Total liabilities and fund balances	<u>\$ 9,936,875</u>	<u>\$ 221,663</u>	<u>\$ 10,158,538</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	6,993,938
<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.			5,779,182
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	123,513	
Accrued interest		13,373	
Intergovernmental revenue		28,986	
Total			165,872
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		749,316	
Capital lease obligation		41,920	
Pension obligation payable		12,350	
Total			(803,586)
Net assets of governmental activities		\$	12,135,406

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,084,060	\$ -	\$ 2,084,060
Tuition.	708,741	46,778	755,519
Charges for services.	-	123,642	123,642
Earnings on investments.	55,478	92	55,570
Classroom materials and fees.	-	6,690	6,690
Customer service revenue.	146,507	-	146,507
Other local revenues.	167,512	3,164	170,676
Intergovernmental - Intermediate	-	1,000	1,000
Intergovernmental - State.	4,248,951	80,610	4,329,561
Intergovernmental - Federal	-	447,661	447,661
Total revenue	<u>7,411,249</u>	<u>709,637</u>	<u>8,120,886</u>
Expenditures:			
Current:			
Instruction:			
Regular	386,488	5,710	392,198
Special.	41,420	41,264	82,684
Vocational.	3,760,417	204,276	3,964,693
Support services:			
Pupil.	535,333	84,690	620,023
Instructional staff	337,708	30,254	367,962
Board of education	23,634	-	23,634
Administration.	250,884	15,795	266,679
Fiscal	202,157	-	202,157
Business	4,179	-	4,179
Operations and maintenance.	807,835	-	807,835
Central.	53,715	26,277	79,992
Food service operations	-	193,077	193,077
Extracurricular activities.	37,502	-	37,502
Facilities acquisition and construction	2,592,050	-	2,592,050
Debt service:			
Principal retirement	11,185	-	11,185
Interest and fiscal charges	3,844	-	3,844
Total expenditures	<u>9,048,351</u>	<u>601,343</u>	<u>9,649,694</u>
Excess of revenues over (under) expenditures	<u>(1,637,102)</u>	<u>108,294</u>	<u>(1,528,808)</u>
Other financing sources (uses):			
Transfers in	-	21,141	21,141
Transfers (out).	(21,141)	-	(21,141)
Proceeds from sale of capital assets.	50	-	50
Total other financing sources (uses)	<u>(21,091)</u>	<u>21,141</u>	<u>50</u>
Net change in fund balances	(1,658,193)	129,435	(1,528,758)
Fund balances at beginning of year (restated)	<u>8,601,504</u>	<u>(78,808)</u>	<u>8,522,696</u>
Fund balances at end of year.	<u>\$ 6,943,311</u>	<u>\$ 50,627</u>	<u>\$ 6,993,938</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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	\$	(1,528,758)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 (\$2,832,816) exceeds depreciation expense (\$255,824) in the current period.		2,576,992
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(150,077)
Repayment of capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		11,185
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(41,883)
Change in net assets of governmental activities	\$	<u>867,459</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,044,073	\$ 2,057,246	\$ 2,092,527	\$ 35,281
Tuition.	684,911	689,325	701,147	11,822
Earnings on investments.	75,707	76,195	77,502	1,307
Customer service revenue.	143,094	144,016	146,486	2,470
Other local revenues	163,365	164,418	167,238	2,820
Intergovernmental - State	4,150,562	4,177,311	4,248,951	71,640
Total revenue	<u>7,261,712</u>	<u>7,308,511</u>	<u>7,433,851</u>	<u>125,340</u>
Expenditures:				
Current:				
Instruction:				
Regular	440,576	304,600	425,837	(121,237)
Special.	39,108	97,238	51,166	46,072
Vocational.	2,892,502	4,140,346	3,934,935	205,411
Support services:				
Pupil.	401,273	606,668	524,998	81,670
Instructional staff	279,758	364,054	366,016	(1,962)
Board of education	18,030	19,450	23,589	(4,139)
Administration.	189,724	267,207	248,222	18,985
Fiscal	156,953	194,660	205,346	(10,686)
Business	14,681	17,000	19,208	(2,208)
Operations and maintenance.	693,359	1,174,572	907,143	267,429
Central.	44,086	6,326	57,679	(51,353)
Extracurricular activities.	28,695	31,550	37,542	(5,992)
Facilities acquisition and construction.	2,058,163	2,347,140	2,692,759	(345,619)
Total expenditures	<u>7,256,908</u>	<u>9,570,811</u>	<u>9,494,440</u>	<u>76,371</u>
Excess of revenues over (under) expenditures.	<u>4,804</u>	<u>(2,262,300)</u>	<u>(2,060,589)</u>	<u>201,711</u>
Other financing sources (uses):				
Refund of prior year expenditure.	163,495	164,549	167,371	2,822
Transfers (out)	(16,159)	(25,000)	(21,141)	3,859
Advances in.	269,677	271,415	276,070	4,655
Advances (out)	(151,914)	(200,000)	(198,754)	1,246
Proceeds from sale of capital assets.	50	50	50	-
Total other financing sources (uses)	<u>265,149</u>	<u>211,014</u>	<u>223,596</u>	<u>12,582</u>
Net change in fund balance	269,953	(2,051,286)	(1,836,993)	214,293
Fund balance at beginning of year.	5,432,435	5,432,435	5,432,435	-
Prior year encumbrances appropriated	2,695,671	2,695,671	2,695,671	-
Fund balance at end of year	<u>\$ 8,398,059</u>	<u>\$ 6,076,820</u>	<u>\$ 6,291,113</u>	<u>\$ 214,293</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 5,232	\$ 24,921
Total assets.	5,232	\$ 24,921
Liabilities:		
Undistributed monies	-	\$ 36
Due to students	-	24,885
Total liabilities	-	\$ 24,921
Net Assets:		
Held in trust for scholarships	5,232	
Total net assets	\$ 5,232	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Contributions and donations.	\$ 7,130
Total additions.	7,130
Deductions:	
Scholarships awarded	9,157
Change in net assets	(2,027)
Net assets at beginning of year (restated) .	7,259
Net assets at end of year	\$ 5,232

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Stark County Area Vocational Board of Education was formed on June 30, 1970. Stark County Area Vocational School District (the "District") is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code and 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. A vocational school exposes students to job training leading to employment upon graduation from high school. The District includes six member schools: Brown Local, Fairless Local, Louisville City, Minerva Local, Northwest Local, and Tuslaw Local. During fiscal 2001, the District entered into an agreement to provide vocational education programs for students of the Perry Local School District. This vocational educational cooperative agreement is effective for 5 years and may be renewed for an additional 5 years if each party agrees.

The District operates under a seven-member Board of Education consisting of 1 member from each member school's board of education, and 1 additional rotating member allowing each member school to have 2 members every 7 years. The District provides educational services as authorized and mandated by state or federal agencies. The District employs 25 non-certified and 62 certified employees to provide services to approximately 646 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the Stark-Portage Area Computer Consortium (SPARCC), a jointly governed organization, which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five-member executive board, which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

INSURANCE PURCHASING POOL

The Stark County Schools Council of Government (the "Council") is governed by an assembly, which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one-year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services. The Council has a Health Benefits Program, which is a shared risk pool comprised of 15 Stark County school districts.

The Council also sponsors a workers' compensation group rating plan, which is an insurance purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

E. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Stark County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2004.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures for all funds, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.
5. Any revisions that alter the total fund expenditures must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. All supplemental appropriations were legally enacted by the Board during fiscal 2004. The amounts reported in the budgetary statement reflect the original and final appropriations approved by the Board of Education during fiscal 2004.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to federal agency securities and investments in STAR Ohio, repurchase agreements, and a money market mutual fund. Investments are reported at fair value, which is based on quoted market prices.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$55,478, which includes \$1,183 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$5,000. The change in the capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 8). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	15 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 15 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

O. Estimates

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

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

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. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 school district not being able to present budgetary comparison for the general and each major special revenue fund.

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.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance (deficit), June 30, 2003 June 30, 2003	\$ 8,595,295	\$ (136,786)	\$ 8,458,509
Fund reclassifications	-	57,978	57,978
Implementation of GASB Interpretation No. 6	6,209	-	6,209
Restated fund balance, June 30, 2003	\$ 8,601,504	\$ (78,808)	\$ 8,522,696

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$ 8,522,696
GASB 34 adjustments:	
Long-term (deferred) assets	315,949
Capital assets	3,202,190
Pension obligation	(9,610)
Long-term liabilities	(763,278)
Governmental activities net assets, June 30, 2003	\$ 11,267,947

In addition to the above, the beginning net assets of the private-purpose trust fund has been restated from zero to \$7,259 to properly report net assets held for scholarship programs under GASB Statement No. 34.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Career Development	\$ 5,314
Management Information Systems	36
Entry Year Programs	58
Miscellaneous State Grants	8,220
Carl D. Perkins	8,015
Miscellaneous Federal Grants	1,024

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are 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 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 finance 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 or interest by the United States;

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 \$259,937 and the bank balance was \$314,952. Of the bank balance:

1. \$118,550 was covered by federal depository insurance; and
2. \$196,402 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency securities	\$ 4,448,558	4,448,558	4,448,558
Investment in STAR Ohio		<u>2,293,157</u>	<u>2,293,157</u>
Total investments		<u>\$ 6,741,715</u>	<u>\$ 6,741,715</u>

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,001,652	\$ -
Investments of the cash management pool:		
Federal agency securities	(4,448,558)	4,448,558
Investment in STAR Ohio	<u>(2,293,157)</u>	<u>2,293,157</u>
GASB Statement No. 3	<u>\$ 259,937</u>	<u>\$ 6,741,715</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 113,070

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:

Nonmajor governmental funds	\$ 21,141
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 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.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 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-four 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 Stark 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 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 as an advance at June 30, 2004 was \$152,269 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$160,736 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		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 931,219,364	85.24	\$ 959,776,510	85.69
Public utility personal	51,341,980	4.70	50,677,320	4.52
Tangible personal property	<u>109,907,036</u>	<u>10.06</u>	<u>109,556,075</u>	<u>9.79</u>
Total	<u>\$ 1,092,468,380</u>	<u>100.00</u>	<u>\$ 1,120,009,905</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 2.00		\$ 2.00	

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$ 2,301,411
Accounts	578
Accrued interest	13,465
Intergovernmental	<u>746,425</u>
Total	<u>\$ 3,061,879</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail):

	Balance <u>6/30/03</u>	Adjustments	Restated Balance <u>6/30/03</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 144,865	\$ -	\$ 144,865
Total capital assets, not being depreciated	<u>144,865</u>	<u>-</u>	<u>144,865</u>
<i>Capital assets, being depreciated:</i>			
Buildings and improvements	6,880,930	(9,632)	6,871,298
Furniture and equipment	2,202,218	(1,144,118)	1,058,100
Vehicles	60,791	(996)	59,795
Total capital assets, being depreciated	<u>9,143,939</u>	<u>(1,154,746)</u>	<u>7,989,193</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(4,931,868)</u>	<u>(4,931,868)</u>
Governmental activities capital assets, net	<u>\$ 9,288,804</u>	<u>\$ (6,086,614)</u>	<u>\$ 3,202,190</u>

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 144,865	\$ -	\$ -	\$ 144,865
Total capital assets, not being depreciated	<u>144,865</u>	<u>-</u>	<u>-</u>	<u>144,865</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	6,871,298	2,615,074	-	9,486,372
Furniture and equipment	1,058,100	217,742	(6,307)	1,269,535
Vehicles	<u>59,795</u>	<u>-</u>	<u>-</u>	<u>59,795</u>
Total capital assets, being depreciated	<u>7,989,193</u>	<u>2,832,816</u>	<u>(6,307)</u>	<u>10,815,702</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(4,328,506)	(183,805)	-	(4,512,311)
Furniture and equipment	(569,232)	(53,502)	6,307	(616,427)
Vehicles	<u>(34,130)</u>	<u>(18,517)</u>	<u>-</u>	<u>(52,647)</u>
Total accumulated depreciation	<u>(4,931,868)</u>	<u>(255,824)</u>	<u>6,307</u>	<u>(5,181,385)</u>
Governmental activities capital assets, net	<u>\$ 3,202,190</u>	<u>\$ 2,576,992</u>	<u>\$ -</u>	<u>\$ 5,779,182</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Vocational \$ 113,580

Support Services:

Pupil 48,958

Instructional staff 8,458

Administration 1,691

Fiscal 1,691

Operations and maintenance 80,723

Food service operations 723

Total depreciation expense \$ 255,824

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into a capital lease agreement for copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the least term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copiers that have been capitalized in the amount of \$61,922. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2004 fiscal year totaled \$11,185 and \$3,844, respectively. These amounts are reported as debt service payments of the general fund on the fund financial statements.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 15,029
2006	15,029
2007	15,029
2008	<u>2,506</u>
Total minimum lease payments	47,593
Less amount representing interest	<u>(5,673)</u>
Total	<u>\$ 41,920</u>

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$14,558 from \$696,523 to \$711,081 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$3,313 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$11,245 from \$752,941 to \$764,186. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 711,081	\$ 93,196	\$ (26,036)	\$ 778,241	\$ 57,133
Capital lease obligation	<u>53,105</u>	<u>-</u>	<u>(11,185)</u>	<u>41,920</u>	<u>12,113</u>
Total long-term obligations, governmental activities	<u>\$ 764,186</u>	<u>\$ 93,196</u>	<u>\$ (37,221)</u>	<u>\$ 820,161</u>	<u>\$ 69,246</u>

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$100,800,891 and an unvoted debt margin of \$1,120,010.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees and administrators earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 320 days. Upon retirement, payment is made for 25% of the total sick leave accumulation, up to a maximum accumulation of 66 days severance pay at the daily rate of the employee.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided through the Stark County Council of Governments Health Benefits Program.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with Marsh USA, Inc. for all insurance. Buildings are 90% co-insured. A summary of coverage provided are as follows:

	Coverage	Deductible
Buildings, Contents and Boiler	\$16,640,100	\$ 5,000
Automobile Liability	2,000,000	25
Uninsured Motorists	50,000	0
Garage Policy:		
Per Occurrence	1,000,000	100
Aggregate	3,000,000	
General Liability:		
Per Occurrence	2,000,000	1,000
Aggregate	4,000,000	
Excess Liability	5,000,000	1,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Employee Health, Dental and Vision

The District has contracted with the Stark County Schools Council of Government (Council) Health Benefits Program to provide employee medical/surgical, dental and vision benefits. The Council's Health Benefits Program is a shared risk pool comprised of 15 Stark County Districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is paid in a common fund from which claim payments are made for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting District subsequent to the settlements of all expenses and claims. The District pays 90% of the premium for medical and dental coverage and 100% of the premium for vision coverage. The following amounts were paid by the District in fiscal 2004:

	Family	Single
Medical	\$602.61	\$248.06
Dental	77.71	31.50
Vision	18.32	7.38

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District also participates in a program within the Council to obtain workers' compensation coverage. This program is administered by Comp Management, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the state are based on this calculation. Total savings are then determined and each participant's performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the program. This process insures that each participant pays an equitable share of the cost.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to fund pension contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$58,428, \$54,073, and \$34,457, respectively; 100% has been contributed for fiscal years 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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to fund pension contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$432,216, \$400,583, and \$274,995, respectively; 100% has been contributed for fiscal year 2004, 2003, and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$365 made by the District and \$3,427 made by the plan members.

C. Social Security System

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$33,247 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$41,170 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 – BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (1,836,993)
Net adjustment for revenue accruals	(22,602)
Net adjustment for expenditure accruals	(78,664)
Net adjustment for other sources/uses	(244,687)
Adjustment for encumbrances	<u>524,753</u>
GAAP basis	<u>\$ (1,658,193)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

**STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - CONTINGENCIES - (Continued)

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

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ (428,168)	\$ -	\$ 43,685
Current year set-aside requirement	97,776	97,776	-
Qualifying disbursements	<u>(326,644)</u>	<u>(2,576,005)</u>	<u>(43,685)</u>
Total	<u>\$ (657,036)</u>	<u>\$ (2,478,229)</u>	<u>\$ -</u>
Cash balance carried forward to FY 2005	<u>\$ (657,036)</u>	<u>\$ -</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carrier forward to the next fiscal year.

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Auditor of State Betty Montgomery

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

Stark County Area Vocational School District
Stark County
6805 Richville Drive SW
Massillon, Ohio 44646

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Stark County Area Vocational School District, Stark 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 December 15, 2004, in which we noted the District adopted Governmental Accounting Standards Board Statement No. 34. In addition, we noted the District increased its capitalization threshold for capital assets from \$500 to \$5,000. 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 the 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 we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated December 15, 2004.

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

This report is intended solely for the information and use of the 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

December 15, 2004



**Auditor of State
Betty Montgomery**

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STARK COUNTY AREA VOCATIONAL SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**