

Alliance City School District

Audited Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Alliance City School District
200 Glamorgan
Alliance, OH 44601

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

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

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

BETTY MONTGOMERY
Auditor of State

March 4, 2005

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**ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2004

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The logo for Rea & Associates, Inc. features a teal-colored graphic on the left consisting of a square with a rounded top-right corner. To the right of this graphic, the company name "Rea & Associates, Inc." is written in a large, black, serif font. Below the company name, the words "ACCOUNTANTS AND BUSINESS CONSULTANTS" are written in a smaller, black, all-caps, serif font. A thin horizontal line is positioned between the company name and the tagline.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

To the Board of Education
Alliance City School District
Alliance, OH 44601

Independent Auditor's Report

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Alliance City School District, Stark County, Ohio as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 27, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Alliance City School District
Independent Accountants' Report
January 27, 2005
Page 2

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

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

The discussion and analysis of the Alliance City School District's 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 performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$ 24,099,328 in revenue or 76% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$7,778,353 or 24% of total revenues of \$31,877,681.
- Total program expenses were \$31,946,394.
- In total, net assets decreased \$68,713.
- Outstanding bonded debt decreased from \$11,289,990 to \$10,754,990 during 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Alliance City School District as a whole 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 Alliance City School District, the general fund is by far the most significant fund.

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

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 fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 which restrict revenue growth, facility conditions, required educational programs, and other factors.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, the debt service fund and Ohio Schools Facilities capital projects fund.

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

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 17 and 18. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

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

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

(Table 1)
Net Assets

	Governmental Activities	
	2004	Restated 2003
Assets		
Current and Other Assets	\$ 19,802,439	\$ 27,554,196
Capital Assets	61,573,102	51,428,933
Total Assets	81,375,541	78,983,129
Liabilities		
Long-Term Liabilities	13,984,560	14,341,664
Other Liabilities	15,314,795	12,496,566
Total Liabilities	29,299,355	26,838,230
Net Assets		
Invested in Capital		
Assets Net of Debt	50,776,684	40,091,158
Restricted	6,301,288	21,271,391
Unrestricted (Deficit)	(5,001,786)	(9,217,650)
Total Net Assets	\$ 52,076,186	\$ 52,144,899

Total net assets decreased by \$68,713. An increase of approximately \$10,144,169 in total capital assets reflects construction in progress of new classroom facilities. Total liabilities increased by \$2,461,125 and was primarily a result of increase in deferred revenue and long term liabilities.

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

Table 2 shows the changes in net assets for fiscal year 2004. This table presents two fiscal years in side-by-side comparisons. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,339,684	\$ 1,114,899
Operating Grants	6,438,669	4,360,036
Capital Grants	0	17,936,771
<i>General Revenue:</i>		
Property Taxes	8,700,577	7,316,384
Grants and Entitlements	14,758,256	14,312,871
Other	640,495	2,665,745
<i>Total Revenues</i>	31,877,681	47,706,706
Program Expenses:		
Instruction	18,467,106	19,152,172
Support Services	10,792,240	9,762,667
Operation of Non-Instructional Services	1,526,239	1,951,657
Extracurricular Activities	593,742	560,251
Interest and Fiscal Charges	567,067	651,236
<i>Total Expenses</i>	31,946,394	32,077,983
Increase (Decrease) in Net Assets	\$ (68,713)	\$ 15,628,723

Governmental Activities

Several revenue sources fund the District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$8.7 million in 2004. General revenues from grants and entitlements, such as the school foundation program, are also a large revenue generator. With the combination of taxes and intergovernmental funding over 93% of expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

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

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

(Table 3)
Governmental Activities

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 18,467,106	\$ 14,753,787	\$ 19,152,172	\$ 7,826,742
Support Services:				
Pupil and Instructional Staff	2,679,859	1,531,935	2,528,809	455,894
Board of Education, Administration				
Fiscal Business and Central	2,876,375	2,328,928	2,798,539	2,076,709
Operation and Maintenance of Plant	4,703,432	3,903,140	3,872,170	(2,444,550)
Pupil Transportation	532,574	510,031	563,149	383,781
Operation of Non-Instructional Services	1,526,239	213,584	1,951,657	552,838
Extracurricular Activities	593,742	359,569	560,251	(722,739)
Interest and Fiscal Charges	567,067	567,067	651,236	537,602
Total	<u>\$ 31,946,394</u>	<u>\$ 24,168,041</u>	<u>\$ 32,077,983</u>	<u>\$ 8,666,277</u>

Instruction and student support services comprise 92% of governmental program expenses. Interest, fiscal and administration charges were 2%. Interest expense was attributable to the outstanding bonds, fiscal expenses include payments to the County Auditor for administrative fees and other administrative services provided by the District. Extracurricular and operation of non-instructional service of facilities accounts for 6% of governmental program expenses.

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

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 year 2004, the District did significantly modify its general fund budget. The District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue and the original budget were the same.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$61,573,102 invested in land, buildings, vehicles and equipment, and construction in progress. See note 8 for additional details. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	2004	Restated 2003
Land	\$ 1,288,837	\$ 1,288,837
Buildings and Building Improvements	52,278,072	48,323,171
Furniture and Equipment	1,420,895	1,657,851
Vehicles	88,756	159,074
Construction in progress	6,496,542	0
Totals	\$ 61,573,102	\$ 51,428,933

The \$10,144,169 increase in capital assets was attributable to additional purchases exceeding depreciation expense.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks (see note 19). For fiscal year 2004, this amounted to \$428,397 for each set aside. The District has qualifying disbursements or offsets for capital acquisition equaling \$7,879,535. For the textbooks, the District disbursed \$399,182, with the remainder scheduled to be carried forward into the 2004 fiscal year.

Debt

At June 30, 2004, the District had \$10,754,990 in bonds outstanding with \$580,000 due within one year. See note for additional details. Table 5 summarizes bonds outstanding.

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

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds	\$ 10,754,990	\$ 11,289,990
Total Outstanding Debt	\$ 10,754,990	\$ 11,289,990

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

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

The Alliance City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the District. Another District concern is the State Legislative approval of the biennial budget, effective July 1, 2004, which had a negative impact on the district. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Dale Burdett, Treasurer of Alliance City School District, 220 Glamorgan, Alliance, OH 44601 orburdett@acs.sparcc.org.

Alliance City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 9,401,175
Receivables:	
Taxes	9,716,999
Accounts	41,322
Accrued Interest	776
Intergovernmental	544,340
Prepaid Items	2,926
Inventory Held For Resale	35,494
Materials and Supplies	59,407
Nondepreciable Capital Assets	7,785,379
Depreciable Capital Assets (Net)	<u>53,787,723</u>
<i>Total Assets</i>	<u>81,375,541</u>
Liabilities	
Accounts Payable	196,392
Contracts Payable	1,014,044
Accrued Wages and Benefits	5,772,444
Matured Compensated Absences Payable	120,556
Intergovernmental Payable	711,972
Deferred Revenue	7,457,959
Accrued Interest Payable	41,428
Long Term Liabilities:	
Due Within One Year	937,322
Due Within More Than One Year	<u>13,047,238</u>
<i>Total Liabilities</i>	<u>29,299,355</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	50,776,684
Restricted for:	
Capital Projects	4,959,452
Debt Service	1,151,066
Other Purposes	190,770
Unrestricted	<u>(5,001,786)</u>
<i>Total Net Assets</i>	<u>\$ 52,076,186</u>

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

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

	Program Revenues			Total Governmental Activities
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 12,946,308	\$ 395,458	\$ 1,986,874	\$ (10,563,976)
Special	3,732,072	26,286	1,272,642	(2,433,144)
Vocational	947,917	23,023	0	(924,894)
Adult continuing	551,213	509	5,780	(544,924)
Other	289,596	2,747	0	(286,849)
Support services:				
Pupils	1,474,702	10,190	554,842	(909,670)
Instructional staff	1,205,157	5,336	577,556	(622,265)
Board of education	17,650	165	0	(17,485)
Administration	2,407,550	214,258	285,859	(1,907,433)
Fiscal	240,328	2,313	4,394	(233,621)
Business	109,607	2,188	17,078	(90,341)
Operation and maintenance of plant	4,703,432	66,259	734,033	(3,903,140)
Pupil transportation	532,574	4,604	17,939	(510,031)
Central	101,240	12,041	9,151	(80,048)
Operation of non-instructional services	1,526,239	340,134	972,521	(213,584)
Extracurricular activities	593,742	234,173	0	(359,569)
Debt service:				
Interest and fiscal charges	567,067	0	0	(567,067)
Total Governmental Activities	\$ 31,946,394	\$ 1,339,684	\$ 6,438,669	(24,168,041)

General Revenues

Property Taxes Levied for:	
General Purposes	7,260,461
Debt Service	1,212,723
Capital Outlay	227,393
Grants and Entitlements not Restricted to Specific Programs	
Investment Earnings	126,462
Gifts and Donations	157,130
Miscellaneous	331,637
Gain on Sale of Capital Assets	25,266
Total General Revenues	24,099,328
Change in Net Assets	(68,713)
Net Assets Beginning of Year - Restated (<i>See note 22</i>)	52,144,899
Net Assets End of Year	\$ 52,076,186

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

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

	General	Bond Retirement Fund	School Facilities - Local Matching	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 307,893	\$ 857,887	\$ 4,485,669	\$ 3,327,498	\$ 8,978,947
Cash and Cash Equivalents:					
Restricted Cash	422,228	0	0	0	422,228
Receivables:					
Taxes	8,326,477	1,261,072	0	129,450	9,716,999
Accounts	20,772	0	0	20,550	41,322
Interfund	0	0	0	813	813
Accrued Interest	108	0	0	668	776
Intergovernmental	84,192	0	165,757	294,391	544,340
Prepaid Items	2,926	0	0	0	2,926
Inventory Held For Resale	0	0	0	35,494	35,494
Materials and Supplies	59,407	0	0	0	59,407
Total Assets	\$ 9,224,003	\$ 2,118,959	\$ 4,651,426	\$ 3,808,864	\$ 19,803,252
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 136,378	\$ 0	\$ 0	\$ 60,014	\$ 196,392
Contracts Payable	0	0	914,378	99,666	1,014,044
Accrued Wages and Benefits	2,738,987	0	0	598,465	3,337,452
Compensated Absences Payable	116,726	0	0	3,830	120,556
Interfund Payable	813	0	0	0	813
Intergovernmental Payable	371,740	0	0	102,454	474,194
Deferred Revenue	7,859,683	1,190,085	134,297	260,100	9,444,165
Total Liabilities	11,224,327	1,190,085	1,048,675	1,124,529	14,587,616
Fund Balances					
Fund Balance:					
Reserved for Encumbrances	19,051	0	1,761,308	643,922	2,424,281
Reserved for Inventory	59,407	0	0	35,494	94,901
Reserved for Prepaid Items	2,926	0	0	0	2,926
Reserved for Tax Revenue Unavailable for Appropriations	468,703	70,987	0	7,287	546,977
Reserved to Textbook/Instructional Materials	422,228	0	0	0	422,228
Undesignated, Unreserved Reported in:					
General Fund	(2,972,639)	0	0	0	(2,972,639)
Special Revenue Funds	0	0	0	1,191,132	1,191,132
Debt Service Fund	0	857,887	0	0	857,887
Capital Projects Funds	0	0	1,841,443	806,500	2,647,943
Total Fund Balances	(2,000,324)	928,874	3,602,751	2,684,335	5,215,636
Total Liabilities and Fund Balances	\$ 9,224,003	\$ 2,118,959	\$ 4,651,426	\$ 3,808,864	\$ 19,803,252

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

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

Total Governmental Fund Balances		\$	5,215,636
 <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			61,573,102
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Grants	\$	274,143	
Delinquent Property Taxes		1,712,064	1,986,207
Intergovernmental payables include contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.			(237,777)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:			
General Obligation Bonds		(10,754,990)	
Accrued Wages and Benefits		(2,434,992)	
Compensated Absences		(3,229,572)	
Accrued Interest		(41,428)	(16,460,982)
Net Assets of Governmental Activities			\$ 52,076,186

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

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

	General	Bond Retirement Fund	School Facilities Local Matching Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 5,980,866	\$ 1,038,129	\$ 0	\$ 359,141	\$ 7,378,136
Intergovernmental	14,312,542	142,084	475,701	6,003,078	20,933,405
Investment income	16,950	0	82,443	27,069	126,462
Tuition and fees	155,170	0	0	314,674	469,844
Extracurricular activities	0	0	0	405,934	405,934
Rentals	0	0	0	7,354	7,354
Charges for services	51,319	0	0	376,460	427,779
Contributions and Donations	0	0	0	175,280	175,280
Miscellaneous	49,944	0	0	281,693	331,637
<i>Total Revenues</i>	20,566,791	1,180,213	558,144	7,950,683	30,255,831
Expenditures:					
Current:					
Instruction:					
Regular	9,348,892	0	0	2,156,928	11,505,820
Special	2,717,062	0	0	1,016,143	3,733,205
Vocational	811,447	0	0	112,667	924,114
Adult continuing	1,031	0	0	527,905	528,936
Other	279,410	0	0	6,053	285,463
Support services:					
Pupils	868,739	0	0	556,051	1,424,790
Instructional staff	539,615	0	0	593,488	1,133,103
Board of education	17,199	0	0	0	17,199
Administration	1,610,249	11,324	0	712,827	2,334,400
Fiscal	223,139	0	0	5,492	228,631
Business	68,556	0	0	38,486	107,042
Operation and maintenance of plant	3,146,985	0	0	504,282	3,651,267
Pupil transportation	443,178	0	0	17,616	460,794
Central	32,168	0	0	36,352	68,520
Operation of non-instructional services	0	0	0	1,511,367	1,511,367
Extracurricular activities	313,876	0	0	229,322	543,198
Capital outlay	33,694	0	10,570,097	836,465	11,440,256
Debt service:					
Principal retirement	0	535,000	0	0	535,000
Interest and fiscal charges	0	573,424	0	0	573,424
<i>Total Expenditures</i>	20,455,240	1,119,748	10,570,097	8,861,444	41,006,529
<i>Excess of Revenues Over (Under) Expenditures</i>	111,551	60,465	(10,011,953)	(910,761)	(10,750,698)
Other Financing Sources (Uses):					
Proceeds from sales of capital assets	25,266	0	0	0	25,266
<i>Net Change in Fund Balance</i>	136,817	60,465	(10,011,953)	(910,761)	(10,725,432)
<i>Fund balance at beginning of year</i>	(2,146,664)	868,409	13,614,704	3,598,374	15,934,823
<i>Increase (decrease) in reserve for inventory</i>	9,523	0	0	(3,278)	6,245
<i>Fund balance at end of year</i>	\$ (2,000,324)	\$ 928,874	\$ 3,602,751	\$ 2,684,335	\$ 5,215,636

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

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

Net Change in Fund Balances - Total Governmental Funds \$ (10,725,432)

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

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

Capital Asset Additions	\$ 12,210,664	
Current Year Depreciation	<u>(2,066,494)</u>	10,144,170

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

Grants	274,143	
Delinquent Property Taxes	<u>1,322,441</u>	1,596,584

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

535,000

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

Change in Inventory	6246	
Interest Payable	6357	
Compensated Absences	(177,898)	
Pension Obligation	(46,970)	
Accrued Benefits	<u>(1,406,770)</u>	<u>(1,619,035)</u>

Change in Net Assets of Governmental Activities \$ (68,713)

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

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 5,878,417	\$ 5,878,417	\$ 5,903,023	\$ 24,606
Intergovernmental	14,533,397	14,533,397	14,237,908	(295,489)
Investment Income	40,000	40,000	16,842	(23,158)
Tuition and Fees	119,000	119,000	155,591	36,591
Charges for Services	30,000	30,000	51,319	21,319
Miscellaneous	30,000	30,000	56,767	26,767
<i>Total Revenues</i>	20,630,814	20,630,814	20,421,450	(209,364)
Expenditures:				
Current				
Instruction:				
Regular	10,768,259	9,606,956	9,278,580	328,376
Special	2,262,112	2,716,502	2,706,490	10,012
Vocational	915,819	965,741	888,538	77,203
Other	280,000	311,393	311,346	47
Support Services				
Pupils	895,500	843,762	851,531	(7,769)
Instructional Staff	554,719	536,071	545,693	(9,622)
Board of Education	23,600	23,600	16,970	6,630
Administration	1,651,572	1,643,334	1,644,699	(1,365)
Fiscal	215,191	193,681	214,974	(21,293)
Business	69,119	71,419	67,179	4,240
Operation and Maintenance of Plant	2,982,235	3,378,596	3,125,813	252,783
Pupil Transportation	562,318	566,923	442,244	124,679
Central	33,500	33,500	31,708	1,792
Extracurricular Activities	0	318,252	318,283	(31)
Capital Outlay	30,000	34,210	33,694	516
<i>Total Expenditures</i>	21,243,944	21,243,940	20,477,742	766,198
Excess of Revenues Over (Under) Expenditures	(613,130)	(613,126)	(56,292)	556,834
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	0	0	25,266	25,266
Advances In	0	0	86,350	86,350
Advances Out	0	0	(44,550)	(44,550)
<i>Total Other Financing Sources (Uses)</i>	0	0	67,066	67,066
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(613,130)	(613,126)	10,774	623,900
<i>Fund Balance at Beginning of Year</i>	450,971	450,971	450,971	0
Prior Year Encumbrances Appropriated	162,156	162,156	162,156	0
<i>Fund Balance at End of Year</i>	\$ (3)	\$ 1	\$ 623,901	\$ 623,900

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

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

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 19,380	\$ 119,410
Accounts Receivable	17	2,017
<i>Total Assets</i>	<u>\$ 19,397</u>	<u>\$ 121,427</u>
Liabilities:		
Accounts Payable	\$ 0	\$ 90
Due to Other Funds	0	116,882
Due to Students	0	4,455
<i>Total Liabilities</i>	<u>\$ 0</u>	<u>\$ 121,427</u>
Net Assets		
Unrestricted	\$ (219)	
Held in Trust for Pool Participants	19,616	
<i>Total Net Assets</i>	<u>\$ 19,397</u>	

See accompanying notes and accountant's compilation report.

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

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$ 745
Interest	194
	939
Deductions:	
Payments in Accordance with Trust Agreements	1,158
	(219)
<i>Change in Net Assets</i>	(219)
<i>Net Assets Beginning of Year</i>	19,616
	19,616
<i>Net Assets End of Year</i>	\$ 19,397
	19,397

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

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

NOTE 1 - NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Alliance City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Alliance City School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2003 was 3,327. The School District employed 257 certified employees and 226 non-certified employees.

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

Nonpublic Schools – Regina Coeli is operated through the Youngstown Catholic Diocese. Current state legislation provides funding for this parochial school. These monies are received and disbursed by the School District on behalf of the parochial school by the Fiscal Officer of the School District, as directed by the parochial schools. The activity of these state monies by the School District is reflected as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with certain organizations which are defined as Jointly Governed Organizations and a Public Entity Risk Pool. They include the Stark/Portage Area Computer Consortium (SPARCC), the Ohio School Board Association Workers' Compensation Group Rating Program, and the Stark County Schools Council of Governments Risk Sharing Pool. These organizations are presented in Notes 15 and 16 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Classroom Facilities Fund – This fund accounts for the accumulation of resources to be used for the acquisition or construction of major capital facilities.

Bond Retirement Fund – This fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds issued for high school and elementary school additions, energy conservation and the construction of a new middle school.

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

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

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

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. The fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control is the object level within each function.

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to repurchase agreements, STAROhio (the State Treasurer's Investment Pool), and certificates of deposit.

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$16,950, which includes \$13,841 assigned from other School District funds.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

G. Prepaid Items

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

H. Inventory

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

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional materials. See Note 19 for additional information regarding set-asides.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Governmental Activities Estimated Lives
Buildings and Building Improvements	5-40 Years
Furniture, Fixtures and Equipment	5-15 Years
Vehicles	5-10 Years
Textbooks and Library Books	7-10 Years

K. 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 columns of the statement of net assets.

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

M. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Assets

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

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

O. Fund Balance Reserves

The School 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 appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, property taxes, inventory, and textbooks.

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

P. Operating Revenues and Expenses

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

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Estimates

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

T. Budgetary Data

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

NOTE 3 – ACCOUNTABILITY

Deficit fund balances at June 30, 2004 including the following individual fund deficits:

Major Fund

General Fund	\$ 2,000,324
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Non-Major Funds

Career Development	361
Public School	5,356
D.P.I.A.	210,647
Title I	46,804
Carl Perkins Grant	1,957

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

<u>Net Change in Fund Balance</u>	
	General
GAAP Basis	\$ 136,817
Net adjustment for revenue accruals	(145,341)
Net adjustment for expenditure accruals	83,717
Advance out	(44,550)
Advances in	86,350
Encumbrances	(106,219)
Budget Basis	\$ 10,774

NOTE 5 - DEPOSITS AND INVESTMENTS

State statues classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits 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.

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAROhio).
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days from the purchase date 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 interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 - At fiscal year-end, the carrying amount of the School District's deposits was \$476,682, and the bank balance was \$877,135. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$777,135 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio, an investment pool operated by the Ohio State Treasurer, which is an unclassified investment since it is not evidenced by securities that exist in physical bank entry form.

	<u>Carrying Value</u>	<u>Fair Value</u>
STAROhio	\$ 9,063,283	\$ 9,063,283

The classification of cash and cash equivalents and investments on the fund financial statements is based on criteria set forth in GASB Statement No. 9.

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 9,539,965	\$ 0
Investments which are part of a cash management pool:		
STAROhio	(9,063,283)	9,063,283
GASB Statement No. 3	\$ 476,682	\$ 9,063,283

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35% of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 36% of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2003 on the value as of December 31, 2003. Tangible personal property is currently assessed at 26% of true value. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

2004 tangible personal property taxes are levied after April 1, 2003 on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 44% of true value.

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

NOTE 6 - PROPERTY TAXES (Continued)

The School District receives property taxes from Stark, Columbiana, and Mahoning Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. 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 is deferred.

The amount available as an advance at June 30, 2004 was \$468,703 in the General Fund, \$70,987 in the Debt Service Fund, and \$7,287 in Other Governmental Funds.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$ 152,959,150	63.26%	\$ 170,269,030	66.00%
Commercial/Industrial	43,391,790	17.94%	46,988,830	18.21%
General	33,375,210	13.80%	28,443,007	11.03%
Public Utilities	12,085,870	5.00%	12,275,390	4.76%
Total Assessed Value	\$ 241,812,020	100.00%	\$ 257,976,257	100.00%
 Tax rate per \$1,000 of assessed value	 \$ 54.10		 \$ 54.10	

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, accounts (tuition and fees), intergovernmental, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Special Revenue Funds:

General Fund	\$ 84,192
School Facilities	165,757
Food Service	86,624
Adult Continuing Education	22,732
Professional Development	16,185
Public School	4,461
Summer Reading Intervention	30,137
Title VI-B	21,249
Title I	91,204
Title VI-B Preschool	2,416
Title VI-R	7,046
Drug and Violence Prevention	<u>12,337</u>
Total Intergovernmental Receivables	<u><u>\$ 544,340</u></u>

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

NOTE 8 – CAPITAL ASSETS

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

	Restated 06/30/03	Additions	Reductions	Balance 06/30/04
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 1,288,837	\$ 0	\$ 0	\$ 1,288,837
Construction in progress	0	11,257,587	(4,761,045)	6,496,542
<i>Total Nondepreciable Capital Assets</i>	1,288,837	11,257,587	(4,761,045)	7,785,379
<i>Depreciable Capital Assets:</i>				
Building and improvements	59,000,324	5,579,905	(2,086,120)	62,494,109
Furniture and equipment	5,732,844	134,217	0	5,867,061
Vehicles	1,203,825	0	0	1,203,825
Textbook and library books	798,179	0	0	798,179
<i>Total capital assets, being depreciated</i>	66,735,172	5,714,122	(2,086,120)	70,363,174
Less accumulated depreciation:				
Building and improvements	(10,677,153)	(1,625,004)	2,086,120	(10,216,037)
Furniture and equipment	(4,074,993)	(371,173)	0	(4,446,166)
Vehicles	(1,044,751)	(70,318)	0	(1,115,069)
Textbook and library books	(798,179)	0	0	(798,179)
Total accumulated depreciation	(16,595,076)	(2,066,495)	2,086,120	(16,575,451)
<i>Total capital assets being depreciated, net</i>	50,140,096	3,647,627	0	53,787,723
<i>Governmental activities capital assets, net</i>	<u>\$ 51,428,933</u>	<u>\$ 14,905,214</u>	<u>\$ (4,761,045)</u>	<u>\$ 61,573,102</u>

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

NOTE 8 – CAPITAL ASSETS (Continued)

Instruction:	
Regular	\$ 723,275
Special	53,729
Vocational	51,662
Other	4,133
Support Services:	
Pupil	39,263
Instructional Staff	57,862
Administration	14,465
Business	620
Operation and Maintenance of Plant	985,718
Pupil Transportation	45,463
Central	30,997
Operational of Non-Instructional Services	3,513
Extracurricular Activities	<u>55,795</u>
Total Depreciation Expense	<u><u>\$ 2,066,495</u></u>

NOTE 9 – DEFERRED REVENUE

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

	Statement of Net Assets	Balance Sheet
Property tax receivable	\$ 7,457,959	\$ 9,309,868
Grants receivable	<u>0</u>	<u>134,297</u>
Total deferred revenue	<u><u>\$ 7,457,959</u></u>	<u><u>\$ 9,444,165</u></u>

NOTE 10 – INTERFUND BALANCES

On the fund financial statements, the other local grants special revenue fund reported on interfund receivable at June 30, 2004 of \$813. The general fund had an interfund payable in the amount of \$813. The loan was an overpayment to the general fund.

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

NOTE 11 – RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004 the School District contracted with Selective Insurance Company of South Carolina for property, general liability, fleet, umbrella, and inland marine insurance. Selective Insurance Company of South Carolina covers boiler and machinery with a \$40,000,000 single occurrence limit and a \$1,000 deductible. Vehicles have a \$500 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability.

Professional liability has a \$2,000,000 single occurrence limit and a \$4,000,000 general aggregate limit with no deductible.

There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past five years.

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Teachers Retirement System

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

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

NOTE 12 – 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, 2002, 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, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For fiscal year ended June 30, 2004, plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 6%. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,974,552, \$2,165,604 and \$2,038,116, respectively; 84.09% has been contributed for fiscal year 2004, and 100% for fiscal years 2003 and 2002. \$314,104, representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

B. School Employees Retirement System

Alliance City School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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

NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$559,068, \$566,400 and \$571,656, respectively; 50% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$272,856, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equaled 1% of covered payroll to the Health Care Reserve Fund, an increase from 3.5% for fiscal year 2004. For the School District, this amount equaled \$137,253 for fiscal year 2004.

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

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with 10 years or more fiscal years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83% of covered payroll, a decrease from 8.45% for fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$283,108.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 (the latest information possible), SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 14 – EMPLOYEE BENEFITS

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Administrative and 260-day employees are entitled to vacation ranging from 5 to 20 days. Employees with less than one year of service, hired prior to February 1, earn 5 days vacation.

All employees are entitled to a sick leave credit equal to 1¼ days for each month of service. The sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to 47 days of sick leave. The total maximum is 47 days for certified employees and 49 days for noncertified employees. The School District accounts for compensated absences in accordance with GASB Statement No. 16 and using the vested method.

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

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

A. Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Stark, Portage and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC. SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Services Center serves as the fiscal agent of the consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the School District's continued participation and no equity interest exists.

NOTE 16 – PUBLIC ENTITY RISK POOL

A. Stark County Schools Council of Governments Health Benefit Plan

The School District is a member of the Stark County Schools Council (the Council), through which a cooperative Health Benefit Program was created for the benefit of its members. The Health Benefit Program (the "Program") is an employee health benefit plan which covers the participating members' employees. The Council acts as a fiscal agent for the cash funds paid into the program by the participating school districts. These funds are pooled together for the purpose of paying health benefit claims for employees and their covered dependents, administrative expenses of the program, and premiums for stop-loss insurance coverage. The School District accounts for the premiums paid as expenditures in the general or applicable fund.

B. Insurance Purchasing Pool

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

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

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

NOTE 17- CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 18 - GENERAL LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2004 were as follows:

	<u>Outstanding 06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 06/30/04</u>	<u>Due in One Year</u>
General Obligation Bonds:					
School Improvements					
Bond - 6.68%	\$ 1,060,000	\$ 0	\$ (240,000)	\$ 820,000	\$ 255,000
OSFC Matching Funds					
Bond - 6.03%	8,904,990	0	(260,000)	8,644,990	285,000
OSFC Land Acquisition					
Bond - 5.86%	<u>1,325,000</u>	<u>0</u>	<u>(35,000)</u>	<u>1,290,000</u>	<u>40,000</u>
Total General					
Obligation Bonds	11,289,990	0	(535,000)	10,754,990	580,000
Compensated Absences	<u>3,051,674</u>	<u>177,896</u>	<u>0</u>	<u>3,229,570</u>	<u>357,322</u>
 Total General Long- Term Obligations	 <u>\$ 14,341,664</u>	 <u>\$ 177,896</u>	 <u>\$ (535,000)</u>	 <u>\$ 13,984,560</u>	 <u>\$ 937,322</u>

General obligation bonds will be paid from tax revenues in the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

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

NOTE 18 - GENERAL LONG-TERM OBLIGATIONS (Continued)

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

Fiscal Year Ending June 30,	General Obligation Bonds Principal	Interest	Total
2005	\$ 580,000	\$ 541,304	\$ 1,121,304
2006	630,000	506,473	1,136,473
2007	670,000	469,056	1,139,056
2008	405,000	439,851	844,851
2009	187,240	676,490	863,730
2010-2014	1,465,259	3,006,582	4,471,841
2015-2019	3,237,491	1,513,244	4,750,735
2020-2023	3,580,000	428,039	4,008,039
Total	<u>\$ 10,754,990</u>	<u>\$ 7,581,039</u>	<u>\$ 18,336,029</u>

NOTE 19 – STATUTORY RESERVES

The School District is required by State statute to annually set aside in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbooks/ Instructional Materials	Capital Improvements	Total
Balance as of June 30, 2003	\$ 393,013	\$ 2,954	\$ 395,967
Current year set-aside requirement	428,397	428,397	856,794
Current year qualifying disbursements	(399,182)	(2,954)	(402,136)
Current year offsets	<u>0</u>	<u>(7,876,581)</u>	<u>(7,876,581)</u>
Balance June 30, 2004	<u>\$ 422,228</u>	<u>\$ (7,448,184)</u>	<u>\$ (7,025,956)</u>
Cash balance carried forward to Fiscal Year 2005	<u>\$ 422,228</u>	<u>\$ 0</u>	

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

NOTE 19 – STATUTORY RESERVES (Continued)

Effective April 10, 2003, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used. The School District does not have a BWC refund set-aside for the current year.

The School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero. A portion of this extra amount (\$7,448,184) may be used to reduce the set-aside requirements for future years.

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for textbooks	<u>\$ 422,228</u>
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Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 20 – CONSTRUCTION COMMITMENTS

As of June 30, 2004, the School District has commitments with the following companies for renovation and construction of the new middle school and new elementary school, renovations for the high school and elementary schools, and various other renovations.

	Contract Amount	Contract Completed	Contract Amount Outstanding
Aerotech Mechanical	\$ 21,921	\$ 16,939	\$ 4,982
Sound Com.	294,263	46,332	247,931
D.J. Porter	378,847	248,829	130,018
School Specialty	1,349,499	881,788	467,711
Martin Public Seating	317,200	254,484	62,716
Holcomb's	198,901	168,010	30,891
Feinman Mechanical	13,200	4,443	8,757
Knoch Corp.	927,766	902,049	25,717
RWJ Corp.	9,644	887	8,757
Western Reserve Mechanical	1,133,343	1,066,201	67,142
Riccuti Balog Architects	281,873	213,715	68,158
Hilscher-Clarke Electric	475,281	418,748	56,533
Stitle Construction	3,267,526	2,783,461	484,065
Kauffman Plumbing	39,575	18,073	21,502
American Demolition	280,000	0	280,000
D & A Plumbing	114,638	107,380	7,258
Lepi Enterprises	317,542	264,754	52,788
Steingass Mechanical	107,091	103,854	3,237
U. S. Communications	457,348	369,966	87,382
Valley Electric	2,528,052	2,507,787	20,265
Xi-Tech	272,651	271,567	1,084
	<u>\$ 12,786,161</u>	<u>\$ 10,649,267</u>	<u>\$ 2,136,894</u>
Total	<u>\$ 12,786,161</u>	<u>\$ 10,649,267</u>	<u>\$ 2,136,894</u>

NOTE 21 – STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 22 – NET ASSET RESTATEMENT

As of June 30, 2003, architect fees related to buildings constructed in fiscal years 2002 and 2003 were not capitalized. The following summarizes the effect on net assets.

	<u>Previously Stated Balance at 6/30/03</u>	<u>Adjustments</u>	<u>Restated Balance at 7/1/03</u>
Governmental Activities	\$50,274,394	\$1,870,505	\$52,144,899

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

To the Board of Education
Alliance City School District
Alliance, OH 44601

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alliance City School District (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 January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated January 27, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 27, 2005.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

To the Board of Education
Alliance City School District
Alliance, OH 44601

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

Compliance

We have audited the compliance of the Alliance City School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

Hea & Associates, Inc.

ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
Passed through Ohio Department of Education:						
Title 1, Part A		C1S1 - 2003	\$ 0		\$ 25,946	
	84.010	C1S1 - 2004	1,158,504		1,037,610	
Total Title 1			<u>1,158,504</u>		<u>1,063,556</u>	
Special Education Cluster:						
Title VI-B	84.027	6BSF - 2003	0		45,635	
		6BSF - 2004	1,158,504		488,592	
Title VI-B Preschool	84.173	PGS1 - 2003	0		2,178	
		PGS1 - 2004	14,516		10,550	
Title VI-B CPIP	84.173		5,400		5,400	
Total Special Education Cluster			<u>1,178,420</u>		<u>552,355</u>	
21st Century Community Learning Centers						
	84.287		0		34,287	
			362,911		341,247	
Total 21st Century Community Learning Centers			<u>362,911</u>		<u>375,534</u>	
Title VI Ed Improve & Consol						
	84.298	C2S1 - 2003	(1,858)		315	
		C2S1 - 2004	22,709		16,262	
Total Title VI			<u>20,851</u>		<u>16,577</u>	
Drug Prevention						
	84.184		18,929		18,929	
			61,746		61,746	
Total Drug Prevention			<u>80,675</u>		<u>80,675</u>	
Safe, Drug-Free Schools & Communities Act Grant						
	84.186	DRS1 - 2003	(12,492)		6,651	
		DRS1 - 2004	39,295		30,505	
Total Safe, Drug-Free Schools			<u>26,803</u>		<u>37,156</u>	
Carl Perkins Grant						
	84.048		29,374		30,258	
			178,201		178,104	
			57,272		57,272	
Total Carl Perkins Grant			<u>264,847</u>		<u>265,634</u>	
Character in Education						
	84.215		82,062		82,062	
			173,747		173,747	
Total Character in Education			<u>255,809</u>		<u>255,809</u>	
Northside CSR Grant						
	84.332		(1,988)		12	
			90,000		78,640	
Total Northside CSR Grant			<u>88,012</u>		<u>78,652</u>	
Community Service - Bureau of Voc. Rehab						
	84.126		12,297		12,297	
Title II-D Technology						
	84.318	TJS1 - 2003	0		15,487	
		TJS1 - 2004	37,174		37,174	
Total II-D Technology			<u>37,174</u>		<u>52,661</u>	
Title II-A						
	84.367	TRS1 - 2003	(35,693)		31,589	
		TJS1 - 2004	226,685		184,077	
Total Title II-A			<u>190,992</u>		<u>215,666</u>	
WIA Project						
	17.258		25,000		25,000	
Total U. S. Department of Education						
Passed through Ohio Department of Education			3,702,295		3,031,572	

ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
Student Financial Assistance Center						
Pell Grant	84.063		170,474		170,474	
Stafford Student Loan	84.032		7,033		7,033	
Total U.S. Dept of Education Student Financial Assistance Cluster			<u>177,507</u>		<u>177,507</u>	
Total U.S. Department of Education			3,879,802		3,209,079	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Ohio Department of MRDD:						
Medical Assistance Program (CAFS)	93.778		142,911		142,911	
Latchkey	13.667		24,444		24,444	
Total U.S. Dept. of Health and Human Services			<u>167,355</u>		<u>167,355</u>	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Federal Block Grant from City of Alliance	14.218		28,000		28,000	
Total U.S. Department of Housing and Urban Development			<u>28,000</u>		<u>28,000</u>	
U. S. DEPARTMENT OF AGRICULTURE						
Passed through Ohio Department of Education: Nutrition Cluster:						
Food Distribution Program	10.550	FY04		\$ 93,875		\$ 93,875
School Breakfast Program	10.553	05PU - 2004	141,209		141,209	
National School Lunch Program	10.555	LLP4 - 2004	623,765		623,765	
National School Summer Feeding	10.559		52,269		52,269	
Total US Department of Agriculture - Nutrition Cluster			<u>817,243</u>	<u>93,875</u>	<u>817,243</u>	<u>93,875</u>
Total Federal Financial Assistance			<u>\$4,892,400</u>	<u>\$ 93,875</u>	<u>\$ 4,221,677</u>	<u>\$ 93,875</u>

See accompanying notes to schedule of expenditures of federal awards.

ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2004, the District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported For major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Nutrition Cluster 21 st Century Community Learning Centers	CFDA # 10.55* CFDA # 84.287
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2004

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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NONE	
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	
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NONE	
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4. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
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NONE	
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**Auditor of State
Betty Montgomery**

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**ALLIANCE CITY 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
MARCH 22, 2005**