

ASHLAND CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Ashland City School District
P.O. Box 160
Ashland, Ohio 44805-0160

We have reviewed the *Independent Auditor's Report* of the Ashland City School District, Ashland County, prepared by Gary B. Fink & 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 Ashland City School District is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

June 24, 2005

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**ASHLAND CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS

<i>INDEPENDENT AUDITOR'S REPORT</i>	1
<i>Management's Discussion and Analysis</i>	3
 <i>BASIC FINANCIAL STATEMENTS</i>	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – (Non-GAAP Basis) Individual Major Governmental Fund	17
Statement of Fund Net Assets – Internal Service Fund	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund	19
Statement of Cash Flows - Internal Service Fund	20
Statement of Fiduciary Net Assets – Fiduciary Fund	21
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund	22
Notes to the Basic Financial Statements	23
 Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	47
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	
	49
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52
Schedule of Findings.....	53

INDEPENDENT AUDITOR'S REPORT

Board of Education
Ashland City School District
PO Box 160
Ashland, OH 44805-0160

We have audited the accompanying financial statements of governmental activities, each major fund and the aggregate remaining fund information of the Ashland City School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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.

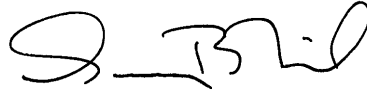
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2004 and respective changes in financial position and cash flows where applicable, 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 have also issued our report dated January 28, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "G. B. Fink". The signature is stylized with a large initial "G" and a long horizontal stroke.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

January 28, 2005

Ashland City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

This discussion and analysis of Ashland City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General revenues accounted for \$25,465,091 in revenue or 86 percent of all revenues. Program revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$4,141,299 or 14 percent of total revenues of \$29,606,390.
- The School District had \$30,468,628 in expenses related to governmental activities; only \$4,141,299 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$25,465,091 were adequate to provide for these programs.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and answers the question, "How did we do financially during 2004?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method 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.

Ashland City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

In the statement of net assets and the statement of activities, the School Districts' activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial statements provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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.

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

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

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
Assets		
<i>Current and other assets</i>	\$ 19,622,291	\$ 21,805,010
<i>Capital assets, net of depreciation</i>	<u>7,844,801</u>	<u>8,020,898</u>
<i>Total assets</i>	<u><u>27,467,092</u></u>	<u><u>29,825,908</u></u>
Liabilities		
<i>Current and other liabilities</i>	13,956,720	15,004,945
<i>Long-term liabilities</i>		
<i>Due within one year</i>	761,800	919,602
<i>Due in more than one year</i>	<u>4,708,284</u>	<u>4,998,835</u>
<i>Total liabilities</i>	<u><u>19,426,804</u></u>	<u><u>20,923,382</u></u>
Net Assets		
<i>Invested in capital assets, net of related debt</i>	5,019,372	4,189,865
<i>Restricted</i>	1,530,344	1,845,523
<i>Unrestricted</i>	<u>1,490,572</u>	<u>2,867,138</u>
<i>Total net assets</i>	<u><u>\$ 8,040,288</u></u>	<u><u>\$ 8,902,526</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School District's assets exceeded liabilities by \$8,040,288; this is a 9.7 percent decrease from the prior year.

Capital assets, net of related debt, reported on the government-wide statements represent the largest portion of the School District's net assets, 62.4 percent for fiscal year 2004. Capital assets include land, land improvements, buildings, furniture, fixtures, and equipment and vehicles, and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$1,530,344, or 19.0 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$614,212 or 40.1 percent is restricted for debt service payment; \$599,386, or 39.2 percent, is restricted for capital projects; and \$200,438, or 13.1 percent, is restricted for nonexpendable scholarship trusts held by the school district, reported as a permanent fund. A small amount, \$116,308, is restricted for other purposes. The remaining balance of government-wide unrestricted net assets of \$1,490,572 may be used to meet the School District's ongoing obligations to students and staff.

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

Table 2 shows change in net assets for fiscal year 2004 compared to 2003.

Table 2
Changes in Net Assets

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
Revenues		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 1,745,721	\$ 1,773,240
<i>Operating grants, contributions and interest</i>	2,376,837	2,630,741
<i>Capital grants, contributions and interest</i>	18,741	35,911
<i>General revenues:</i>		
<i>Property taxes</i>	13,399,057	12,150,524
<i>Grants and entitlements</i>	11,713,769	11,119,158
<i>Investment earnings</i>	70,344	85,667
<i>Miscellaneous</i>	281,921	202,445
<i>Total revenues</i>	<u>29,606,390</u>	<u>27,997,686</u>
 Program Expenses		
<i>Instruction:</i>		
<i>Regular</i>	13,022,354	12,327,284
<i>Special</i>	3,007,019	2,795,222
<i>Vocational</i>	977,143	887,222
<i>Adult/continuing</i>	-	1,005
<i>Other</i>	963,169	825,149
<i>Support services:</i>		
<i>Pupils</i>	1,530,050	1,469,174
<i>Instructional staff</i>	1,324,583	1,184,166
<i>Board of education</i>	110,948	163,308
<i>Administration</i>	2,287,296	2,150,883
<i>Fiscal</i>	715,210	729,874
<i>Business</i>	382,071	377,596
<i>Operation and maintenance of plant</i>	2,597,218	2,407,985
<i>Pupil transportation</i>	996,448	880,948
<i>Central</i>	303,244	146,089
<i>Operation of non-instructional services:</i>		
<i>Food service operations</i>	1,236,911	1,194,491
<i>Community services</i>	207,235	254,418
<i>Extracurricular activities</i>	603,046	614,236
<i>Interest and fiscal charges</i>	204,683	229,764
<i>Total expenses</i>	<u>30,468,628</u>	<u>28,638,814</u>
 <i>Decrease in net assets</i>	<u>\$ (862,238)</u>	<u>\$ (641,128)</u>

Ashland City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

Several revenue sources fund the School District's governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated approximately \$13.4 million in 2004. General revenues from grants and entitlements, such as the school foundation program, generated over \$11.7 million. With the combination of taxes and intergovernmental funding comprising approximately 85 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Costs directly related to the instruction of students comprised 59 percent of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants, contributions, and interest offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2003 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost</u> <u>of Services</u> <u>2004</u>	<u>Total Cost</u> <u>of Services</u> <u>2003</u>	<u>Net Cost</u> <u>of Services</u> <u>2004</u>	<u>Net Cost</u> <u>of Services</u> <u>2003</u>
Program Expenses				
<i>Instruction:</i>				
Regular	\$ 13,022,354	\$ 12,327,284	\$ (12,255,655)	\$ (11,514,394)
Special	3,007,019	2,795,222	(2,307,432)	(1,750,434)
Vocational	977,143	887,222	(976,066)	(884,918)
Adult/continuing	-	1,005	-	(455)
Other	963,169	825,149	(963,169)	(825,149)
<i>Support services:</i>				
Pupils	1,530,050	1,469,174	(1,474,984)	(1,241,501)
Instructional staff	1,324,583	1,184,166	(695,865)	(828,557)
Board of education	110,948	163,308	(21,705)	(163,308)
Administration	2,287,296	2,150,883	(2,287,296)	(1,986,188)
Fiscal	715,210	729,874	(715,210)	(702,618)
Business	382,071	377,596	(298,131)	(354,491)
Operation and maintenance of plant	2,597,218	2,407,985	(2,593,899)	(2,407,985)
Pupil transportation	996,448	880,948	(952,787)	(787,905)
Central	303,244	146,089	(265,746)	(104,062)
<i>Operation of non-instructional services:</i>				
Food service operations	1,236,911	1,194,491	(104,093)	(98,317)
Community services	207,235	254,418	1,329	(40,354)
Extracurricular activities	603,046	614,236	(211,937)	(278,522)
Interest and fiscal charges	204,683	229,764	(204,683)	(229,764)
Total expenses	<u>\$ 30,468,628</u>	<u>\$ 28,638,814</u>	<u>\$ (26,327,329)</u>	<u>\$ (24,198,922)</u>

Ashland City School District

Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District’s Funds

The School District’s governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$29,695,792 and total expenditures were \$30,753,120. The School District continues to be financially stable. The net decrease in fund balance for the year was significant in the general fund, amounting to \$1,250,496, or 41.6 percent. Net changes across all nonmajor governmental funds amounted to a \$193,168, or 9.5 percent increase.

General Fund Budgeting Highlights

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

During fiscal year 2004, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$25,570,000, which was higher than the original budget estimate of \$25,458,760. Most of this \$111,240 difference was due to conservative estimates for grant awards, the amounts of which are unknown during the original budgeting process. Those estimates must be increased during the year as the awards are finalized.

The original expenditures and other financing uses estimate of \$27,784,894 was revised slightly over the fiscal year. Actual expenditures and other financing uses, however, were only \$26,906,435, \$878,459 less than originally anticipated. Insignificant decreases from the original to final budget were posted to nearly all line items of the budget. Even though the School District became aware of unexpected revenues, there was no intention of spending these additional revenues in any specific area.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$7,844,801 invested in capital assets. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003:

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<i>Governmental Activities</i>	
	<u>2004</u>	<u>2003</u>
<i>Land</i>	\$ 757,979	\$ 757,979
<i>Land improvements</i>	153,126	161,001
<i>Buildings</i>	4,791,588	4,881,161
<i>Furniture, fixtures and equipment</i>	1,677,387	1,721,000
<i>Vehicles</i>	464,721	499,757
<i>Total capital assets</i>	<u>\$ 7,844,801</u>	<u>\$ 8,020,898</u>

Ashland City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

There were no significant purchases of capital assets during the fiscal year. Capital assets, net of depreciation, decreased by \$176,097, which was mainly due to the current year's depreciation of \$250,248. See Note 7 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2004 the School District had \$3,260,000 in bonds and notes outstanding with \$489,000 due within one year. This balance reflected a reduction of \$474,000, or 12.7 percent, from the previous year's balance of \$3,734,000. Table 5 summarizes the bonds and notes outstanding:

*Table 5
Outstanding General Obligation Debt, at Fiscal Year End*

	<i>Governmental Activities 2004</i>	<i>Governmental Activities 2003</i>
<i>Library Improvement Bonds</i>	<i>\$ 475,000</i>	<i>\$ 570,000</i>
<i>Land Purchase Loan</i>	<i>160,000</i>	<i>169,000</i>
<i>Certificates of Participation</i>	<i>2,625,000</i>	<i>2,995,000</i>
<i>Total outstanding debt</i>	<i><u>\$ 3,260,000</u></i>	<i><u>\$ 3,734,000</u></i>

During fiscal year 1986, the School District issued \$2,177,000 in bonds, the proceeds of which were used to renovate the Ashland Public Library. During fiscal year 1997, the School District issued Certificates of Participation in the amount of \$4,605,000 and simultaneously entered into a trust and lease agreement to make payments on the Certificates. The proceeds of this issue were used for the construction of additions to two existing elementary schools. In fiscal year 2002, a loan in the amount of \$178,000 was issued to purchase land that was intended to be used as the site of a new school building.

The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund. See Note 13 to the basic financial statements for detail on the School District's debt.

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

Ashland City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

A challenge facing the School District is the future of State funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The School District is unable to determine what effect, if any, this decision will have on future funding from the State. See Note 16 to the basic financial statements for more on this contingent matter.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions or need additional financial information, contact Marie Beddow, Treasurer, Ashland City School District, 416 Arthur Street, Ashland OH, 44805.

Ashland City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 5,475,742
Cash and cash equivalents:	
With fiscal agents	460,538
Investments in segregated accounts	184,383
Receivables:	
Taxes	13,315,632
Accounts	82,034
Intergovernmental	75,129
Prepaid items	4,864
Inventory held for resale	21,336
Materials and supplies inventory	2,633
Capital assets:	
Land	757,979
Depreciable capital assets, net	7,086,822
Total capital assets	<u>7,844,801</u>
Total assets	<u>27,467,092</u>
<u>Liabilities:</u>	
Accounts payable	189,981
Accrued wages	2,120,651
Compensated absences payable	41,899
Intergovernmental payable	702,808
Deferred revenue	10,355,934
Accrued interest payable	14,274
Claims payable	531,173
Long-term liabilities:	
Due within one year	761,800
Due in more than one year	4,708,284
Total liabilities	<u>19,426,804</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	5,019,372
Restricted for:	
Capital projects	599,386
Debt service	614,212
Permanent fund purpose - scholarships	
Nonexpendable	200,438
Other purposes	116,308
Unrestricted	<u>1,490,572</u>
Total net assets	<u>\$ 8,040,288</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		Capital Grants, Contributions and Interest	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities:					
Instruction:					
Regular	\$ 13,022,354	\$ 445,578	\$ 321,121	\$ -	\$ (12,255,655)
Special	3,007,019	184,162	515,425	-	(2,307,432)
Vocational	977,143	-	-	1,077	(976,066)
Other	963,169	-	-	-	(963,169)
Support services:					
Pupils	1,530,050	-	55,066	-	(1,474,984)
Instructional staff	1,324,583	-	628,718	-	(695,865)
Board of education	110,948	44,781	44,462	-	(21,705)
Administration	2,287,296	-	-	-	(2,287,296)
Fiscal	715,210	-	-	-	(715,210)
Business	382,071	21,030	62,910	-	(298,131)
Operation and maintenance of plant	2,597,218	-	3,319	-	(2,593,899)
Pupil transportation	996,448	25,249	748	17,664	(952,787)
Central	303,244	-	37,498	-	(265,746)
Operation of non-instructional services:					
Food service operations	1,236,911	638,732	494,086	-	(104,093)
Community services	207,235	-	208,564	-	1,329
Extracurricular activities	603,046	386,189	4,920	-	(211,937)
Interest and fiscal charges	204,683	-	-	-	(204,683)
Total governmental activities	\$ 30,468,628	\$ 1,745,721	\$ 2,376,837	\$ 18,741	(26,327,329)

General Revenues:

Property taxes levied for:

General purposes	12,805,899
Debt service	66,390
Capital projects	526,768
Grants and entitlements not restricted to specific programs	11,713,769
Investment earnings	70,344
Miscellaneous	281,921
Total general revenues	25,465,091
 Change in net assets	 (862,238)
 Net assets beginning of year	 8,902,526
Net assets end of year	\$ 8,040,288

See accompanying notes to the basic financial statements.

Ashland City School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 1,552,842	\$ 1,755,908	\$ 3,308,750
Cash and cash equivalents:			
With fiscal agents	-	460,538	460,538
Investments in segregated accounts	-	184,383	184,383
Receivables:			
Taxes	12,801,204	514,428	13,315,632
Accounts	81,777	257	82,034
Intergovernmental	-	75,129	75,129
Interfund	6,808	-	6,808
Inventory held for resale	-	21,336	21,336
Materials and supplies inventory	-	2,633	2,633
Prepaid items	4,864	-	4,864
Equity in pooled cash and cash equivalents (restricted)	344,320	-	344,320
Total assets	<u>14,791,815</u>	<u>3,014,612</u>	<u>17,806,427</u>
<u>Liabilities:</u>			
Accounts payable	\$ 57,395	\$ 132,586	\$ 189,981
Accrued wages	1,939,354	181,240	2,120,594
Interfund payable	-	6,808	6,808
Intergovernmental payable	462,114	32,300	494,414
Compensated absences payable	38,649	3,250	41,899
Deferred revenue	10,541,867	443,632	10,985,499
Total liabilities	<u>13,039,379</u>	<u>799,816</u>	<u>13,839,195</u>
<u>Fund balances:</u>			
Reserved for:			
Encumbrances	185,633	81,093	266,726
Budget stabilization	138,734	-	138,734
Bus purchases	17,664	-	17,664
Endowments	-	194,583	194,583
Unreserved, designated:			
Budget stabilization	187,922	-	187,922
Unreserved, undesignated, reported in:			
General fund	1,222,483	-	1,222,483
Special revenue funds	-	260,037	260,037
Debt service fund	-	1,102,254	1,102,254
Capital projects fund	-	570,974	570,974
Permanent fund	-	5,855	5,855
Total fund balances	<u>1,752,436</u>	<u>2,214,796</u>	<u>3,967,232</u>
Total liabilities and fund balances	<u>\$ 14,791,815</u>	<u>\$ 3,014,612</u>	<u>\$ 17,806,427</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total governmental fund balances		\$ 3,967,232
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,844,801
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 597,093	
Charges for services	32,472	
Total	<u>629,565</u>	629,565
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		1,289,466
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.		(207,032)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (3,260,000)	
Compensated absences	(2,169,041)	
Capital leases	(40,429)	
Accrued interest payable	(14,274)	
Total	<u>(5,483,744)</u>	<u>(5,483,744)</u>
Net assets of governmental activities		<u>\$ 8,040,288</u>

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 12,813,614	\$ 576,521	\$ 13,390,135
Intergovernmental	11,675,035	2,308,584	13,983,619
Interest	69,277	9,532	78,809
Tuition and fees	624,534	109,630	734,164
Extracurricular activities	122,785	310,289	433,074
Gifts and donations	-	125,982	125,982
Charges for services	7,902	657,567	665,469
Rent	3,987	-	3,987
Decrease in fair value of investments	-	(1,142)	(1,142)
Miscellaneous	277,891	3,804	281,695
Total revenues	<u>25,595,025</u>	<u>4,100,767</u>	<u>29,695,792</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	12,499,302	417,482	12,916,784
Special	2,420,032	552,786	2,972,818
Vocational	948,204	22,798	971,002
Other	894,471	68,698	963,169
Support services:			
Pupils	1,457,327	96,161	1,553,488
Instructional staff	940,579	378,287	1,318,866
Board of education	110,710	-	110,710
Administration	2,119,485	138,836	2,258,321
Fiscal	690,923	11,690	702,613
Business	349,435	32,004	381,439
Operation and maintenance of plant	2,260,723	309,872	2,570,595
Pupil transportation	905,859	38,282	944,141
Central	236,097	47,596	283,693
Operation of non-instructional services:			
Food service operations	-	1,211,249	1,211,249
Community service	-	208,042	208,042
Extracurricular	325,398	257,803	583,201
Capital outlay	28,777	45,374	74,151
Debt service:			
Principal retirement	426,604	104,000	530,604
Interest and fiscal charges	144,646	53,588	198,234
Total expenditures	<u>26,758,572</u>	<u>3,994,548</u>	<u>30,753,120</u>
Excess of revenues over (under) expenditures	<u>(1,163,547)</u>	<u>106,219</u>	<u>(1,057,328)</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	86,949	86,949
Transfers out	(86,949)	-	(86,949)
Total other financing sources (uses)	<u>(86,949)</u>	<u>86,949</u>	<u>-</u>
Net change in fund balances	<u>(1,250,496)</u>	<u>193,168</u>	<u>(1,057,328)</u>
Fund balances beginning of year	<u>3,002,932</u>	<u>2,021,628</u>	<u>5,024,560</u>
Fund balances end of year	<u>\$ 1,752,436</u>	<u>\$ 2,214,796</u>	<u>\$ 3,967,232</u>

See accompanying notes to the basic financial statements.

Ashland City School District

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net change in fund balances - total governmental funds \$ (1,057,328)

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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Net capital asset additions	\$ 74,151	
Depreciation expense	(250,248)	
Excess of net capital outlay over depreciation expense		(176,097)

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

Property taxes	\$ 8,922	
Intergovernmental	(11,382)	
Charges for services	(86,986)	
Miscellaneous	44	
Net change in deferred revenues during the year		(89,402)

Repayments of debt and capital lease principal are expenditures in the governmental funds, but the
repayments reduce long-term liabilities in the statement of net assets. 530,604

Some items 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. These
activities consist of:

Increase in compensated absences	\$ (82,396)	
Increase in pension obligation	(18,409)	
Increase in accrued interest	(6,449)	
Total additional expenses		(107,254)

The internal service fund used by management to charge the costs of medical, prescription
drug, dental and vision claims to individual funds are not reported in the statement of
activities. The net revenue (expense) of the internal service fund is reported in the
government-wide statements. 37,239

Change in net assets of governmental activities \$ (862,238)

See accompanying notes to the basic financial statements.

Ashland 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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 12,679,891	\$ 12,655,837	\$ 12,655,250	\$ (587)
Intergovernmental	11,637,189	11,706,526	11,706,026	(500)
Interest	74,434	69,210	69,206	(4)
Tuition and fees	589,013	630,256	630,228	(28)
Extracurricular activities	43,012	122,790	122,785	(5)
Charges for services	8,000	7,902	7,902	-
Rent	1,000	3,712	3,712	-
Miscellaneous	300,221	248,784	248,773	(11)
Total revenues	<u>25,332,760</u>	<u>25,445,017</u>	<u>25,443,882</u>	<u>(1,135)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	12,753,270	12,542,088	12,542,088	-
Special	2,457,867	2,405,242	2,405,242	-
Vocational	951,430	939,533	939,533	-
Other	965,334	974,882	974,882	-
Support services:				
Pupils	1,574,392	1,451,896	1,451,896	-
Instructional staff	921,596	925,153	925,153	-
Board of education	219,511	153,689	153,689	-
Administration	2,169,191	2,094,138	2,094,138	-
Fiscal	760,635	699,867	699,867	-
Business	407,508	347,061	347,061	-
Operation and maintenance of plant	2,314,687	2,269,100	2,269,100	-
Pupil transportation	966,159	927,089	927,089	-
Central	287,530	236,841	236,841	-
Extracurricular activities	352,368	336,238	336,238	-
Capital outlay	533,416	509,861	509,861	-
Total expenditures	<u>27,634,894</u>	<u>26,812,678</u>	<u>26,812,678</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(2,302,134)</u>	<u>(1,367,661)</u>	<u>(1,368,796)</u>	<u>(1,135)</u>
<u>Other financing sources (uses):</u>				
Refund of prior year expenditures	2,000	967	967	-
Advances in	124,000	124,016	123,955	(61)
Advances out	(50,000)	(6,808)	(6,808)	-
Transfers out	(100,000)	(86,949)	(86,949)	-
Total other financing sources (uses)	<u>(24,000)</u>	<u>31,226</u>	<u>31,165</u>	<u>(61)</u>
Net change in fund balance	(2,326,134)	(1,336,435)	(1,337,631)	(1,196)
Fund balance at beginning of year	2,812,685	2,812,685	2,812,685	-
Prior year encumbrances appropriated	215,288	215,288	215,288	-
Fund balance at end of year	<u>\$ 701,839</u>	<u>\$ 1,691,538</u>	<u>\$ 1,690,342</u>	<u>\$ (1,196)</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Self Insurance
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 1,822,672</u>
<u>Liabilities:</u>	
Current liabilities:	
Accrued wages	57
Intergovernmental payable	1,362
Claims payable	<u>531,173</u>
Total current liabilities	532,592
Noncurrent liabilities:	
Due in more than one year	<u>614</u>
Total liabilities	<u>533,206</u>
<u>Net assets:</u>	
Unrestricted	<u>1,289,466</u>
Total liabilities and net assets	<u>\$ 1,822,672</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Self Insurance
<u>Operating revenues:</u>	
Charges for services	\$ 3,328,994
 <u>Operating expenses:</u>	
Salaries	56,871
Fringe benefits	15,094
Purchased services	321,418
Claims	2,898,372
Total operating expenses	3,291,755
 Change in net assets	37,239
 Net assets beginning of year	1,252,227
Net assets end of year	\$ 1,289,466

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from interfund services provided	\$ 3,328,994
Cash received from other operating sources	-
Cash payments to suppliers for goods and services	(321,418)
Cash payments to employees for services	(57,016)
Cash payments for employee benefits	(14,746)
Cash payments for claims	(2,834,834)
Net cash provided by operating activities	<u>100,980</u>
Net increase in cash and cash equivalents	100,980
Cash and cash equivalents at beginning of year	1,721,682
Cash and cash equivalents at end of year	<u>\$ 1,822,662</u>
 <u>Reconciliation of operating income to net cash provided by operating activities:</u>	
Operating income	<u>\$ 37,239</u>
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in liabilities:	
Accrued wages	57
Compensated absences payable	(145)
Intergovernmental payable	291
Claims payable	63,538
Net cash provided by operating activities	<u>\$ 100,980</u>

Ashland City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 13,615	\$ 46,480
	<u> </u>	<u> </u>
 <u>Liabilities:</u>		
Accounts payable	-	1,657
Intergovernmental payable	-	826
Due to students	-	43,997
Total liabilities	<u> </u>	<u>\$ 46,480</u>
 <u>Net assets:</u>		
Held in trust for scholarships	13,615	
Total net assets	<u>\$ 13,615</u>	

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
<u>Additions:</u>	
Investment earnings	\$ 597
Interest	5,135
Total additions	<u>5,732</u>
 <u>Deductions:</u>	
Payments in accordance with trust agreements	<u>8,435</u>
Change in net assets	(2,703)
Net assets beginning of year	<u>16,318</u>
Net assets end of year	<u><u>\$ 13,615</u></u>

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Ashland 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 School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's six instructional/support facilities staffed by 142 non-certificated employees and 251 certificated teaching and support personnel, including 18 administrators, that provides services to 3,487 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the 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. This includes general operations, food service, and student-related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The 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 provide 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 the Tri-County Computer Service Association, which is defined as a jointly governed organization. A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding this organization is presented in Note 15.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**A. Basis of Presentation
- Fund Accounting**

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 activity of the internal service fund is eliminated to avoid "doubling-up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the 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 and 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 that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each 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 rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into three categories: governmental, proprietary and fiduciary. The School District's only agency fund accounts for student managed activities.

Governmental Fund Types

Governmental funds focus 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 one major governmental fund:

General Fund: The general fund is the operating fund of the School District and is used to account 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.

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund: The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for revenue received from other funds and the settlement expenses for medical, surgical, prescription drug, dental, and vision claims of School District employees.

Fiduciary Fund Types

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 fund, which accounts for several scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Measurement Focus
and Basis of
Accounting**

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

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

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 private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Notes to the Basic Financial Statements

Revenue - 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 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 taxes are levied. 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) 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 the governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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 the governmental funds.

**D. Budgets and
Budgetary
Accounting**

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 primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriation 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. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004. The amounts reported as the original budgeted expenditure 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 expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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 are not reappropriated.

E. Cash and Investments To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to overnight repurchase agreement, interest in Star Ohio, the State Treasurer's Investment Pool, stock certificates and federal agency securities. These investments are stated at cost, which approximates market value (fair value). Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

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

In a previous fiscal year, the School District received donated stocks, which are reported in a permanent endowment fund as "Investments in segregated accounts". The stocks are carried at fair value and are not to be sold. The dividends are used for expenditures of this fund.

F. 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 purchase and an expenditure/expense is reported in the year which services are consumed.

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

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

Inventories on the fund financial statements are stated at cost for governmental funds. Cost is determined on a first-in, first-out basis. Inventories of the general fund were not significant at the end of the year. Inventories of the food service special revenue fund consist of donated and purchased food. Inventories reported on the fund financial statements are expensed when purchased.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. Restricted assets in the general fund include unexpended revenues restricted for the purchase of school buses. Restricted assets may also include amounts set aside as a reserve or designation for budget stabilization, which is now optional as determined by the School District. See Note 17 for additional information regarding statutory reserves.

J. Capital Assets

General capital assets are those assets resulting 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. 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 the asset's life are not capitalized. The School District's policy is not to capitalize interest costs incurred as part of construction.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
<i>Land improvements</i>	<i>8 years</i>
<i>Buildings</i>	<i>40 years</i>
<i>Furniture, fixtures and equipment</i>	<i>5 - 8 years</i>
<i>Vehicles</i>	<i>10 years</i>

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent 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 absences liability is reported on the government-wide financial statements.

Notes to the Basic Financial Statements

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in 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 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 are recognized as a liability on the fund financial statements when due.

M. Net Assets

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

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

N. Operating Revenues and Expenses

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

O. Interfund Transactions

Interfund transactions are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of net assets.

P. 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.

Ashland City School District

Q. Fund Balance Reserves

The School District records reservations for portions of fund balances, which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditures. Unreserved fund balance indicates the portion of fund balances that are available for appropriation in future periods. Fund balance reserves are established for encumbrances, budget stabilization, bus purchases, and endowments.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above 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 presentation for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance

	<i>General</i>
<i>GAAP Basis</i>	\$ (1,250,496)
<i>Revenue Accruals</i>	(26,221)
<i>Expenditure Accruals</i>	145,637
<i>Encumbrances (Budget Basis)</i>	
<i>Outstanding at year end</i>	<u>(206,551)</u>
<i>Budget Basis</i>	<u>\$ (1,337,631)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations 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 other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; 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.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

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

Deposits: The carrying value of the School District's deposits, including \$50 in petty cash, totaled \$474,741, and the bank balances of the deposits totaled \$736,800. Of the bank balance:

1. \$107,470 was covered by federal depository insurance; and
2. \$629,330 was collateralized with securities held by the pledging institution's trust department or agent but not in the School District's name.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of credit risk. Category 1 includes investments that are insured or registered or 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.

All interest is legally required to be placed in the general fund, the food service special revenue fund and the Scholarships private purpose trust fund. Interest revenue credited to the general fund during fiscal year 2004 amount to \$69,277, which includes \$36,003 assigned from other School District funds.

Notes to the Basic Financial Statements

	<u>Category 1</u>	<u>Carrying Amounts</u>	<u>Fair Value</u>
<u>Categorized Investments</u>			
Stock Certificates	<u>\$ 184,383</u>	<u>\$ 184,383</u>	<u>\$ 184,383</u>
<u>Noncategorized Investments</u>			
State Treasurer's Pool		<u>5,521,633</u>	<u>5,521,633</u>
Total Investments		<u>\$ 5,706,016</u>	<u>\$ 5,706,016</u>

The School District's investment in Star Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

NOTE 5 - PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Ashland and Richland Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by year-end are available to finance the current fiscal year operations. The amount available to be advanced can vary based on the date the tax bills are sent. The Board has passed a resolution to accept advances of property taxes and make them available for appropriation.

Ashland City School District

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at year-end was \$2,365,864 in the general fund and is recognized as revenue on the fund financial statements.

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2002 Assessed Value</u>	<u>2003 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 291,777,190	\$ 295,565,090
Commercial and industrial	85,801,640	83,598,330
<u>Tangible Personal Property</u>		
General	76,336,515	68,677,731
Public utilities	18,605,460	18,284,360
Total	<u>\$ 472,520,805</u>	<u>\$ 466,125,511</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, interfund, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of principal items of intergovernmental receivables follows:

<u>Funds</u>	<u>Amount</u>
<u>Special revenue funds:</u>	
Food service	\$ 9,412
Alternative school	3,107
Title VI-B	34,610
Title I	20,000
Reducing class size	<u>8,000</u>
Total intergovernmental receivable	<u>\$ 75,129</u>

Notes to the Basic Financial Statements

NOTE 7 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 757,979	\$ -	\$ -	\$ 757,979
<i>Capital assets, being depreciated:</i>				
Land improvements	451,883	-	-	451,883
Buildings	15,250,534	19,928	-	15,270,462
Furniture, fixtures and equipment	4,118,647	38,153	-	4,156,800
Vehicles	<u>1,543,977</u>	<u>16,070</u>	-	<u>1,560,047</u>
Total capital assets, being depreciated	<u>21,365,041</u>	<u>74,151</u>	-	<u>21,439,192</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(290,882)	(7,875)	-	(298,757)
Buildings	(10,369,373)	(109,501)	-	(10,478,874)
Furniture, fixtures and equipment	(2,397,647)	(81,766)	-	(2,479,413)
Vehicles	<u>(1,044,220)</u>	<u>(51,106)</u>	-	<u>(1,095,326)</u>
Total accumulated depreciation	<u>(14,102,122)</u>	<u>(250,248)</u>	-	<u>(14,352,370)</u>
Total capital assets being depreciated, net	<u>7,262,919</u>	<u>(176,097)</u>	-	<u>7,086,822</u>
Governmental activities capital assets, net	<u>\$ 8,020,898</u>	<u>\$ (176,097)</u>	<u>\$ -</u>	<u>\$ 7,844,801</u>

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$ 111,318
Special	13,988
Vocational	2,548
<i>Support services:</i>	
Instructional staff	1,132
Administration	10,206
Fiscal	1,096
Operation and maintenance of plant	20,344
Pupil transportation	46,661
Food service operations	25,070
Extracurricular activities	<u>17,885</u>
Total depreciation expense	<u>\$ 250,248</u>

Ashland City School District

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2004 consisted of the following:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
<i>General fund</i>	\$ 6,808	\$ -
<i>Nonmajor governmental funds</i>	-	6,808
	<u>\$ 6,808</u>	<u>\$ 6,808</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund loans outstanding are anticipated to be repaid in fiscal year 2005.

NOTE 9 - INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year 2004, the general fund transferred a total of \$86,949 to the food service (nonmajor) special revenue fund to finance food service operations.

NOTE 10 - RISK MANAGEMENT

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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$483,756, reported in the fund at year end, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The School District purchases stop-loss coverage of \$70,000 per employee.

Notes to the Basic Financial Statements

Changes in the fund's claims liability during 2003 and 2004 were:

<i>Fiscal Year</i>	<i>Balance at beginning of year</i>	<i>Current year claims</i>	<i>Claim payments</i>	<i>Balance at end of year</i>
2003	\$ 487,807	2,255,555	(2,275,727)	\$ 467,635
2004	\$ 467,635	2,898,372	(2,834,834)	\$ 531,173

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll, which includes 9.09 percent for pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, 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 \$299,715, \$237,495, and \$163,940, respectively; 49 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$146,860, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll, which includes 13 percent for pension obligations, the same portion used to fund pension obligations for fiscal year 2003.

Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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 \$1,841,928, \$1,785,814, and \$1,344,988, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$313,128, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2004 were \$11,364 made by the School District and \$30,237 made by the plan members.

NOTE 12 - POST-EMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The retirement board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$141,626 during the 2004 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by the STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced 50% for those who apply. For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400.

The surcharge, added to the unallocated portion of the 14 percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$211,784, which includes a surcharge of \$50,399 during the 2004 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the SERS's net assets available for payment of health care benefits was \$300.8 million, at cost. The number of participants receiving health care benefits was approximately 62,000.

Ashland City School District

NOTE 13 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<u>Governmental activities</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due in</u> <u>one year</u>
<u>General Obligations</u>					
<i>Library Improvement Bonds, 8.75%, maturing December 1, 2008</i>	\$ 570,000	\$ -	\$ (95,000)	\$ 475,000	\$ 95,000
<i>Certificates of Participation, 4.50-5.10%, maturing December 1, 2009</i>	2,995,000	-	(370,000)	2,625,000	385,000
<i>Land Purchase Loan, 2.30-3.0%, maturing July 1, 2017</i>	<u>169,000</u>	<u>-</u>	<u>(9,000)</u>	<u>160,000</u>	<u>9,000</u>
<i>Total General Obligations</i>	<u>3,734,000</u>	<u>-</u>	<u>(474,000)</u>	<u>3,260,000</u>	<u>489,000</u>
<u>Other Obligations</u>					
<i>Compensated absences</i>	2,087,404	304,370	(222,119)	2,169,655	232,371
<i>Capital leases payable</i>	<u>97,033</u>	<u>-</u>	<u>(56,604)</u>	<u>40,429</u>	<u>40,429</u>
<i>Total other liabilities</i>	<u>2,184,437</u>	<u>304,370</u>	<u>(278,723)</u>	<u>2,210,084</u>	<u>272,800</u>
<i>Governmental activities long-term liabilities</i>	<u>\$ 5,918,437</u>	<u>\$ 304,370</u>	<u>\$ (752,723)</u>	<u>\$ 5,470,084</u>	<u>\$ 761,800</u>

Library Improvements Bonds: During the year ended June 30, 1985, the School District issued bonds for the principal amount of \$2,177,000 for improving the Ashland Public Library. The repayment of the debt is from property tax revenue received in the bond retirement debt service fund.

Certificates of Participation: Certificates of Participation were issued during fiscal year 1997 for \$4,605,000. Concurrently, the School District entered into a trust and lease agreement to make base rent payments for the face value of the Certificates. The agreements were for the School District to sublease additions to two existing elementary schools, which were constructed using the proceeds from the Certificates.

The renewal of the lease and disbursement of rent payments are subject to appropriations made by the School District's Board from the general fund.

Land Purchase Loan: During the year ended June 30, 2002, the School District entered into a Loan for \$178,000 to purchase land adjacent to the high school for future expansion. The repayment is from the permanent improvement fund and subject to appropriations made by the School District's Board.

Other Obligations: Compensated absences are typically paid from the fund from which the employee is paid. In prior years this has primarily been the general fund. Capital lease obligations are typically paid from the general fund.

Notes to the Basic Financial Statements

Principal and interest requirements to amortize all general obligation bonds, loan and certificates outstanding at June 30, 2004 are as follows:

<i>Fiscal</i> <u>Year</u>	<i>Bonds</i>		<i>Certificates</i>		<i>Loan</i>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005	95,000	37,406	385,000	120,480	9,000	7,785	654,671
2006	95,000	29,094	405,000	101,419	10,000	7,446	647,959
2007	95,000	20,781	425,000	81,185	10,000	7,040	639,006
2008	95,000	12,469	445,000	59,759	11,000	6,613	629,841
2009	95,000	8,313	470,000	36,995	11,000	6,111	627,419
2010-2014	-	-	495,000	12,622	63,000	22,129	592,751
2015-2017	-	-	-	-	46,000	4,961	50,961
<i>Total</i>	<u>\$ 475,000</u>	<u>\$ 108,063</u>	<u>\$ 2,625,000</u>	<u>\$ 412,460</u>	<u>\$ 160,000</u>	<u>\$ 62,085</u>	<u>\$ 3,842,608</u>

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District, in a prior year, entered into capitalized leases for the acquisition of eight copiers. The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$255,786 equal to the present value of the future minimum lease payments on the government-wide financial statements. Principal payments in the current fiscal year totaled \$56,604.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

<i>Fiscal</i> <u>Year</u>	<i>Lease</i> <u>Payments</u>
2004	<u>\$ 41,134</u>
<i>Total minimum lease payments</i>	41,134
<i>Less: amount representing interest</i>	<u>(705)</u>
<i>Total</i>	<u>\$ 40,429</u>

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association (TCCSA) is the computer service organization or Data Acquisition Site (DAS) used by the School District. TCCSA is an association of public school districts in a geographic area determined by the Ohio Department of Education. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges, and assessments as charged.

TCCSA is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest in or an ongoing financial responsibility for the consortium. Payments to TCCSA are made from the general fund. During fiscal year 2004, the School District contributed \$191,168 to TCCSA.

NOTE 16 - CONTINGENCIES

A few claims and lawsuits are pending against the School District. It is management's opinion that the ultimate liability will be covered by insurance and/or will not have a material effect on the financial statements.

The School District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the School District's management believes that such disallowances, if any, will be immaterial.

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

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...".

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Notes to the Basic Financial Statements

NOTE 17 - STATUTORY RESERVES

The School District is required by State statute to annually set-aside monies for the purchase of textbooks and other instructional materials, for school bus purchases, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may only be used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the other set-asides. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, Senate Bill 345 amended Ohio Revised Code 5705.29 effectively eliminating the requirement for the School District to establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the Act. As of June 30, 2003 the Board had not acted on the Senate Bill. Monies previously reported in the budget stabilization reserve are now reported as designated and reserved fund balance in the general fund.

During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>	<i>Budget Stabilization Reserve</i>	<i>Total</i>
<i>Set-aside cash balance as of June 30, 2003</i>	\$ (664,168)	\$ -	\$ 138,734	\$ (525,434)
<i>Current year set-aside requirement</i>	523,165	523,165	-	1,046,330
<i>Current year offset</i>	-	(517,905)	-	(517,905)
<i>Qualifying disbursements</i>	<u>(451,131)</u>	<u>(392,190)</u>	<u>-</u>	<u>(843,321)</u>
<i>Total</i>	<u>\$ (592,134)</u>	<u>\$ (386,930)</u>	<u>\$ 138,734</u>	<u>\$ (840,330)</u>
<i>Balance carried forward to future years</i>	<u>\$ (592,134)</u>		<u>\$ 138,734</u>	<u>\$ (453,400)</u>
<i>Restricted cash</i>			<u>\$ 138,734</u>	<u>\$ 138,734</u>

NOTE 18 – SCHOOL DISTRICT’S OTHER RESERVES

At June 30, 2003, the School District also had a cash balance of \$33,606 set aside as a school bus reserve. During fiscal year 2004, an additional \$17,664 was received as a school bus subsidy, and the School District spent \$33,606 toward the purchase of new buses. This activity resulted in a reserve balance of \$17,664 to be used for the purchase of school buses in future years, and is reported as restricted cash on the governmental funds balance sheet.

In addition, in a previous fiscal year the School District’s Board approved an amount that was set-aside for budget stabilization in the amount of \$187,922. This amount is also reported as restricted cash and offset by a designation of fund balance

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Ashland City School District
PO Box 160
Ashland, OH 44805-0160

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ashland 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 28, 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 28, 2005.

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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 operations that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 28, 2005.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS** (continued)

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

A handwritten signature in black ink, appearing to read "G. B. Fink". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

January 28, 2005

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

Board of Education
Ashland City School District
PO Box 160
Ashland, OH 44805-0160

Compliance

We have audited the compliance of the Ashland 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. 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 Ashland City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

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 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 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 and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

January 28, 2005

**Ashland City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	043505-LLP4-2003	\$44,798	\$44,798
National School Lunch Program	10.555	043505-LLP4-2004	294,500	294,500
Total National School Lunch Program			339,298	339,298
Federal School Breakfast	10.553	043505-05PU-2003	8,524	8,524
Federal School Breakfast	10.553	043505-05PU-2004	55,519	55,519
Total Federal School Breakfast			64,043	64,043
Food Distribution	10.550	- - - -	390,549	390,549
Total U.S. Department of Agriculture - Child Nutrition Cluster			793,890	793,890
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program (Title XIX)	93.778	----	109,323	109,323
Total U.S. Department of Health and Human Services - Medicaid Cluster			109,323	109,323
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Innovative Education Program Strategies (ESEA Title VI)	84.298	043505-C2S1-2002	0	59
Innovative Education Program Strategies (ESEA Title VI)	84.298	043505-C2S1-2003	423	3,187
Innovative Education Program Strategies (ESEA Title VI)	84.298	043505-C2S1-2004	25,268	16,908
Total Innovative Education Program Strategies			25,691	20,154
Title I Grants to Local Educational Agencies	84.010	043505-C1S1-2003	26,323	62,701
Title I Grants to Local Educational Agencies	84.010	043505-C1S1-2004	500,029	430,757
Total Title I			526,352	493,458
Safe and Drug-Free Schools and Communities - National Programs	84.184	043505-T4S1-2004-P	8,283	8,283
Safe and Drug-Free Schools and Communities - National Programs	84.184	043505-T4S1-2004	7,072	7,072
Safe and Drug-Free Schools and Communities - State Grants	84.186	043505-DRS1-2003	4,822	7,374
Safe and Drug-Free Schools and Communities - State Grants	84.186	043505-DRS1-2004	19,512	14,343
Total Safe and Drug-Free Schools and Communities			39,689	37,072
Special Education Cluster:				
Special Education-Grants to States (Title VI-B Flow-Thru)	84.027	043505-6BSF-2003-P	161,744	79,606
Special Education-Grants to States (Title VI-B Flow-Thru)	84.027	043505-6BSF-2004	479,796	403,316
Total Special Education Cluster			641,540	482,922
Education Technology State Grants (Enhancing Education Through Technology Program)	84.318	043505-TJS1-2003	0	6,298
	84.318	043505-TJS1-2004	20,789	12,686
Total Education Technology State Grants			20,789	18,984
School Renovation Grants	84.352	043505-ATS4-2003	0	1,248
School Renovation Grants	84.352	043505-ATS4-2002	5,545	5,545
Total School Renovation Grants			5,545	6,793
Improving Teacher Quality State Grants	84.367	043505-TRS1-2003	10,186	32,271
Improving Teacher Quality State Grants	84.367	043505-TRS1-2004	174,928	148,713
Total Improving Teacher Quality State Grants			185,114	180,984
Eisenhower Professional Development State Grants	84.281	043505-MSS1-2002	0	245
Total Eisenhower Professional Development State Grants			0	245
Total U.S. Department of Education			1,444,720	1,240,612
Total Federal Assistance			\$2,347,933	\$2,143,825

The accompanying notes to this Schedule are an integral part of this Schedule.

ASHLAND CITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED 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. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain inventory records for purchased food and food received from the U.S. Department of Agriculture.

Nonmonetary assistance such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

ASHLAND CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

ASHLAND CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

(d)(1)(vii)	Major Program:	Child Nutrition Cluster, CFDA #10.550, 10.553 and 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

ASHLAND CITY SCHOOL DISTRICT

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 7, 2005**