

Toronto City School District

Audited Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Toronto City School District
300 Myers Street
Toronto, Ohio 46964

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

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

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

BETTY MONTGOMERY
Auditor of State

January 19, 2005

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**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

JUNE 30, 2004

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**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

JUNE 30, 2004

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2004

To the Board of Education
Toronto City School District
Toronto, OH 43964

Independent Auditor's Report

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

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

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

As stated in Note 3, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 34, "Basic Financial Statements and Management's Discussion and Analysis, No. 37, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financials."

In accordance with *Government Auditing Standards*, we also have issued our report dated December 20, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Hea & Associates, Inc.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$490,404.

General revenues accounted for \$5,623,606, or 82 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,260,328 or 18 percent of total revenues of \$6,883,934.

The District's major fund is the general fund. The general fund had \$5,508,105 in revenues and \$5,815,459 in expenditures and other financing uses. The general fund's balance decreased \$307,354 from the prior fiscal year.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the general fund is by far the most significant fund. The general fund is the only major fund.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major fund. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**Table 1
Net Assets
Governmental Activities**

	2004
<u>Assets:</u>	
Current and Other Assets	\$5,943,410
Capital Assets, Net	2,024,262
Total Assets	7,967,672
 <u>Liabilities:</u>	
Current and Other Liabilities	2,939,027
Long-Term Liabilities	450,820
Total Liabilities	3,389,847
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	2,024,262
Restricted	200,910
Unrestricted	2,352,653
Total	\$4,577,825

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**Table 2
Change in Net Assets
Governmental Activities**

	2004
<u>Revenues:</u>	
<u>Program Revenues:</u>	
Charges for Services and Sales	\$250,575
Operating Grants, Contributions and Interest	988,028
Capital Grants and Contributions	21,725
Total Program Revenues	1,260,328
<u>General Revenues:</u>	
Property Taxes	1,888,748
Grants and Entitlements	3,633,578
Gifts and Donations	2,891
Interest	69,026
Miscellaneous	29,363
Total General Revenues	5,623,606
Total Revenues	\$6,883,934

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

<u>Expenses:</u>	
Instruction	\$3,911,670
Support Services:	
Pupils	237,493
Instructional Staff	358,974
Board of Education	6,733
Administration	920,814
Fiscal	267,272
Business	32,335
Operation and Maintenance of Plant	839,875
Pupil Transportation	221,301
Central	641
Non-Instructional	333,210
Extracurricular Activities	244,020
Total Expenses	<u>7,374,338</u>
Increase (Decrease) in Net Assets	<u>(\$490,404)</u>

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
Instruction	\$3,911,670	\$2,912,108
Support Services:		
Pupils	237,493	229,903
Instructional Staff	358,974	348,904
Board of Education	6,733	6,733
Administration	920,814	920,814
Fiscal	267,272	267,272
Business	32,335	32,335
Operation and Maintenance of Plant	839,875	839,875
Pupil Transportation	221,301	221,301
Central	641	641
Non-Instructional	333,210	240,232
Extracurricular Activities	244,020	93,892
Total Expenses	<u>\$7,374,338</u>	<u>\$6,114,010</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 74 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 82 percent. The remaining 18 percent are derived from tuition and fees, specific grants, and donations.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues of \$6,903,455 and expenditures of \$7,225,362. The net negative change of \$321,907 in fund balance for the year indicates that the District had difficulty meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$6,478,167 while actual expenditures were \$6,343,390. The \$134,777 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$2,024,262 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

Debt

At June 30, 2004, the District had no debt.

At June 30, 2004, the District's overall legal debt margin was \$7,779,217, with an un-voted debt margin of \$86,436.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Toronto is a small residential community of 5,676 people along the Ohio River in Eastern Ohio. Its major business is TIMET, a worldwide producer/distributor of titanium sheet metal products. Many of its residents are employed in the area steel industry at Weirton ISG and Wheeling Pittsburgh Steel. It also has a number of small and medium businesses.

The district is currently operating in the first year of the state biennium budget. 46.6 percent of district revenue sources are from local funds, 45.7 percent from state funds and the remaining 7.7 percent is from federal funds. The total expenditure per pupil was calculated at \$6,998.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Over the past several years, the District has remained in a good financial position. In May 1999, the District passed a 5 mill five-year operating levy. The last collection on that levy will occur in calendar year 2005. The levy has been placed on the November 2, 2004 ballot for replacement and will generate \$432,178.75 annually. This levy provides a source of funds for the financial operations and stability of the district. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Cheryl Vukelic, Treasurer, Toronto City School District, 300 Myers St., Toronto, Ohio 43964.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 538,454
Investments	2,672,500
Materials and Supplies Inventory	6,635
Accrued Interest Receivable	28,856
Accounts Receivable	2,412
Intergovernmental Receivable	54,723
Prepaid Items	18,276
Taxes Receivable	2,584,419
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	37,135
Capital Assets:	
Depreciable Capital Assets, net	2,024,262
Total Assets	7,967,672
 LIABILITIES:	
Accounts Payable	13,315
Accrued Wages and Benefits	606,478
Intergovernmental Payable	172,688
Matured Compensated Absences Payable	49,555
Deferred Revenue	1,878,044
Claims Payable	218,947
Long-Term Liabilities:	
Due Within One Year	38,514
Due in More Than One Year	412,306
Total Liabilities	3,389,847
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	2,024,262
Restricted for Debt Service	122,510
Restricted for Capital Outlay	37,135
Restricted for Other Purposes	41,265
Unrestricted	2,352,653
Total Net Assets	\$ 4,577,825

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
Instruction:					
Regular	\$ 3,084,724	\$ 14,864	\$ 555,966	\$ 21,725	(2,492,169)
Special	682,062	0	407,007	0	(275,055)
Vocational	123,817	0	0	0	(123,817)
Other	21,067	0	0	0	(21,067)
Support Services:					
Pupils	237,493	0	7,590	0	(229,903)
Instructional Staff	358,974	0	10,070	0	(348,904)
Board of Education	6,733	0	0	0	(6,733)
Administration	920,814	0	0	0	(920,814)
Fiscal	267,272	0	0	0	(267,272)
Business	32,335	0	0	0	(32,335)
Operation and Maintenance of Plant	839,875	0	0	0	(839,875)
Pupil Transportation	221,301	0	0	0	(221,301)
Central	641	0	0	0	(641)
Operation of Non-Instructional Services	333,210	85,583	7,395	0	(240,232)
Extracurricular Activities	244,020	150,128	0	0	(93,892)
Totals	\$ 7,374,338	\$ 250,575	\$ 988,028	\$ 21,725	(6,114,010)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					1,888,748
Grants and Entitlements not Restricted to Specific Programs					3,633,578
Gifts and Donations					2,891
Investment Earnings					69,026
Miscellaneous					29,363
Total General Revenues					<u>5,623,606</u>
Change in Net Assets					(490,404)
Net Assets Beginning of Year					5,068,229
Net Assets End of Year					<u>\$ 4,577,825</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 282,869	\$ 239,854	\$ 522,723
Investments	2,550,000	122,500	2,672,500
Materials and Supplies Inventory	0	6,635	6,635
Accrued Interest Receivable	28,856	0	28,856
Accounts Receivable	2,302	110	2,412
Interfund Receivable	364,547	0	364,547
Intergovernmental Receivable	0	54,723	54,723
Prepaid Items	18,276	0	18,276
Taxes Receivable	2,584,419	0	2,584,419
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	37,135	0	37,135
Total Assets	\$ 5,868,404	\$ 423,822	\$ 6,292,226
Liabilities			
Current Liabilities:			
Accounts Payable	11,353	1,962	13,315
Accrued Wages and Benefits	503,404	103,074	606,478
Intergovernmental Payable	99,384	8,560	107,944
Matured Compensated Absences Payable	47,684	1,871	49,555
Deferred Revenue	2,048,698	13,082	2,061,780
Total Liabilities	2,710,523	128,549	2,839,072
Fund Balances			
Reserved:			
Reserved for Encumbrances	212,555	40,326	252,881
Reserved for Prepaid Items	18,276	0	18,276
Reserved for Property Taxes	111,306	0	111,306
Reserved for Capital Improvements	37,135	0	37,135
Unreserved, Undesignated, Reported in:			
General Fund	2,778,609	0	2,778,609
Special Revenue Funds	0	132,437	132,437
Debt Service Funds	0	122,510	122,510
Total Fund Balances	3,157,881	295,273	3,453,154
Total Liabilities and Fund Balances	\$ 5,868,404	\$ 423,822	\$ 6,292,226

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances	\$	3,453,154
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		2,024,262
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		183,736
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(64,744)
Internal Service Fund		(567,763)
<p>Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:</p>		
Compensated Absences Payable	(450,820)	(450,820)
Net Assets of Governmental Activities	\$	4,577,825

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

	General Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property and Other Local Taxes	\$ 1,872,144	\$ 0	1,872,144
Intergovernmental	3,527,643	1,125,813	4,653,456
Interest	68,956	70	69,026
Tuition and Fees	9,999	4,865	14,864
Extracurricular Activities	0	150,128	150,128
Gifts and Donations	0	2,891	2,891
Customer Sales and Services	0	85,583	85,583
Miscellaneous	29,363	0	29,363
Total Revenues	5,508,105	1,369,350	6,877,455
EXPENDITURES:			
Current:			
Instruction:			
Regular	2,557,275	423,446	2,980,721
Special	385,290	307,391	692,681
Vocational	133,588	0	133,588
Other	21,067	0	21,067
Support Services:			
Pupils	216,176	22,336	238,512
Instructional Staff	270,461	97,033	367,494
Board of Education	6,689	0	6,689
Administration	804,371	74,214	878,585
Fiscal	263,264	0	263,264
Business	0	32,335	32,335
Operation and Maintenance of Plant	809,812	49	809,861
Pupil Transportation	187,786	8,084	195,870
Central	0	641	641
Operation of Non-Instructional Services	0	330,692	330,692
Extracurricular Activities	133,680	113,682	247,362
Total Expenditures	5,789,459	1,409,903	7,199,362
Excess of Revenues Over (Under) Expenditures	(281,354)	(40,553)	(321,907)
OTHER FINANCING SOURCES AND USES:			
Transfers In	0	26,000	26,000
Transfers Out	(26,000)	0	(26,000)
Total Other Financing Sources and Uses	(26,000)	26,000	0
Net Change in Fund Balances	(307,354)	(14,553)	(321,907)
Fund Balance (Deficit) at Beginning of Year	3,465,235	309,826	3,775,061
Fund Balance (Deficit) at End of Year	\$ 3,157,881	\$ 295,273	\$ 3,453,154

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ (321,907)

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

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

Capital Outlay - Depreciable Capital Assets	3,389	
Depreciation	(180,650)	
		(177,261)

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

Intergovernmental	(10,125)	
Delinquent Property Taxes	16,604	
		6,479

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

Internal service fund is not included in governmental fund financial statements. (26,270)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(3,613)	
Compensated Absences Payable	32,168	
		28,555

Change in Net Assets of Governmental Activities \$ (490,404)

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,358,093	\$ 2,239,800	\$ 2,240,086	\$ 286
Intergovernmental	6,078,829	3,351,975	3,359,638	7,663
Interest	205,358	112,750	98,846	(13,904)
Tuition and Fees	21,363	10,000	9,940	(60)
Total Revenues	<u>8,663,643</u>	<u>5,714,525</u>	<u>5,708,510</u>	<u>(6,015)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,636,902	2,493,704	2,482,762	10,942
Special	423,266	400,280	392,892	7,388
Vocational	154,993	146,576	142,536	4,040
Other	22,164	35,146	37,067	(1,921)
Support Services:				
Pupils	266,364	251,899	243,166	8,733
Instructional Staff	292,219	277,296	273,187	4,109
Board of Education	7,779	8,858	6,699	2,159
Administration	826,043	814,000	861,134	(47,134)
Fiscal	195,027	244,960	276,182	(31,222)
Operation and Maintenance of Plant	1,058,869	1,001,367	873,614	127,753
Pupil Transportation	232,906	273,384	195,612	77,772
Extracurricular Activities	148,198	140,150	134,080	6,070
Total Expenditures	<u>6,264,730</u>	<u>6,087,620</u>	<u>5,918,931</u>	<u>168,689</u>
Excess of Revenues Over (Under) Expenditures	<u>2,398,913</u>	<u>(373,095)</u>	<u>(210,421)</u>	<u>162,674</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures	0	29,550	29,539	(11)
Advances In	0	237,881	237,881	0
Transfers Out	0	(26,000)	(26,000)	0
Refund of Prior Year Receipts	0	0	(33,912)	(33,912)
Advances Out	0	(364,547)	(364,547)	0
Total Other Financing Sources and Uses	<u>0</u>	<u>(123,116)</u>	<u>(157,039)</u>	<u>(33,923)</u>
Net Change in Fund Balances	2,398,913	(496,211)	(367,460)	128,751
Fund Balance (Deficit) at Beginning of Year	2,824,058	2,824,058	2,824,058	0
Prior Year Encumbrances Appropriated	190,890	190,890	190,890	0
Fund Balance (Deficit) at End of Year	<u>\$ 5,413,861</u>	<u>\$ 2,518,737</u>	<u>\$ 2,647,488</u>	<u>\$ 128,751</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Fund Net Assets
Proprietary Fund
June 30, 2004**

		<u>Governemental Activities - Internal Service</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	<u>15,731</u>
Total Current Assets		<u>15,731</u>
 Total Assets		 <u><u>15,731</u></u>
LIABILITIES:		
Current Liabilities:		
Interfund Payable		364,547
Claims Payable		<u>218,947</u>
Total Current Liabilities		<u>583,494</u>
 Total Liabilities		 <u><u>583,494</u></u>
NET ASSETS:		
Unrestricted		<u>(567,763)</u>
Total Net Assets	\$	<u><u>(567,763)</u></u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

OPERATING REVENUES:

Charges for Services	\$ <u>681,427</u>
Total Operating Revenues	<u>681,427</u>

OPERATING EXPENSES:

Purchased Services	87,377
Claims	<u>620,320</u>
Total Operating Expenses	<u>707,697</u>
Net Change in Net Assets	(26,270)

Net Assets (Deficit) at Beginning of Year	<u>(541,493)</u>
Net Assets (Deficit) at End of Year	<u><u>\$ (567,763)</u></u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	Governmental Activities - Internal Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$ 681,427
Cash Payments for Purchased Services	(87,377)
Cash Payments for Claims	(763,383)
Net Cash Used by Operating Activities	<u>(169,333)</u>
Cash Flows from Noncapital Financing Activities	
Advances In	364,547
Advances Out	(216,088)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>148,459</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(20,874)
Cash and Cash Equivalents at Beginning of Year	36,605
Cash and Cash Equivalents at End of Year	<u>\$ 15,731</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ (26,270)
Adjustments	
Increase (Decrease) in Liabilities:	
Claims Payable	(143,063)
Net Cash Used by Operating Activities	<u>\$ (169,333)</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 4,997	\$ 19,182
Investments	<u>19,083</u>	<u>0</u>
Total Assets	<u>24,080</u>	<u>19,182</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u>0</u>	<u>19,182</u>
Total Liabilities	<u>0</u>	<u>19,182</u>
Net Assets		
Held in Trust for Scholarships	<u>24,080</u>	<u>0</u>
Total Net Assets	<u>\$ 24,080</u>	<u>\$ 0</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ 532
Miscellaneous	<u>659</u>
Total Additions	<u>1,191</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>550</u>
Total Deductions	<u>550</u>
Change in Net Assets	641
Net Assets Beginning of Year	<u>23,439</u>
Net Assets End of Year	<u>\$ 24,080</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Toronto City School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Toronto City School District is a city school district as defined by §3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 44 non-certified and 81 certified full-time teaching personnel who provide services to 1,011 students and other community members.

The Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with four organizations, which are defined as a joint venture, a jointly governed organization, and insurance purchasing pools. These organizations include the Ohio Mid-Eastern Regional Education Service Agency, the Jefferson County Career Center, the Ohio School Boards Association Worker's Compensation Group Rating Plan, and the Ohio Mid-Eastern Regional Education Service Agency Health Benefits Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise 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. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

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 General Fund is the District's major governmental fund:

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

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund:

Internal Service Fund - The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for the operation of the District's self-insurance program for employee medical, vision, prescription drug, and dental claims.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of 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.

D. Basis of Accounting

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred Revenue

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

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

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. 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 the Board of Education. Budgetary allocations at the function and object level in all funds are made by the Treasurer.

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

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (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.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$68,956 and \$70 to other District funds.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

H. 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 either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for the acquisition or construction of capital assets and budget stabilization.

I. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported 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 District's capitalization threshold is two thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

For 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. The noncurrent portion of the liability is not reported.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. Fund Balance Reserves and Designations

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

accounting principles but not available for appropriation under State statute. The reserve for capital acquisitions represents money to be set-aside by statute from improvements and/or construction of District buildings.

O. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

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

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.

Q. Extraordinary and Special Items

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

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

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

The government-wide financial statements split the District's programs between governmental activities and

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2003	\$3,441,708	\$250,539	\$3,692,247
GASB Statement 34 Adjustment			
Change in Fund Structure – Expendable Trust		23,974	23,974
Change in Fund Structure - Enterprise		29,713	29,713
Interpretation 6 Adjustments:			
Compensated Absences Payable	23,527	5,600	29,127
Adjusted Fund Balance	\$3,465,235	\$309,826	3,775,061
GASB 34 Adjustments:			
Deferred Revenue			177,257
Capital Assets			2,201,523
Long-Term Liabilities			(544,119)
Internal Service Fund			(541,493)
Governmental Activities Net Assets at June 30, 2003			\$5,068,229

4. BUDGETARY BASIS OF ACCOUNTING

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

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).

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance General Fund	
GAAP Basis	(\$307,354)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	796,823
Accrued FY 2004, Not Yet Received in Cash	(630,330)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(584,416)
Accrued FY 2004, Not Yet Paid in Cash	707,000
Advances Net	(126,666)
Encumbrances Outstanding at Year End (Budget Basis)	(222,517)
Budget Basis	(\$367,460)

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal 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 monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of 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.

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

**TORONTO CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

A. Deposits

At fiscal year-end, the carrying amount of the District's deposits was \$2,566,621 and the bank balance was \$3,155,199. Of the bank balance:

1. \$100,000 was covered by Federal Depository Insurance, and
2. \$3,055,199 was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation. The balances above do not include the balances held by the Ohio Mid-Eastern Regional Educational Services Agency School Employees Insurance Consortium.

**TORONTO CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

B. Funds Held by Fiscal Agent

The District participates in the Ohio Mid-Eastern Regional Educational Service Agency School Employees Insurance Consortium for employee benefits. The bank balance at fiscal year end for the Employee Benefit Self-Insurance Fund was (\$348,816). All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium. The (\$348,816) negative cash represents money owed to the insurance consortium for payments. The District advanced General Fund cash to the Self Insurance Fund to eliminate the negative cash fund balance.

C. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004 were as follows:

	Carrying Value	Fair Value
Government Sweep	\$1,073,546	\$1,073,546

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$599,768	\$2,691,583
Funds held by Fiscal Agent	348,816	
Certificates of Deposit	2,691,583	(2,691,583)
Investments:		
Government Sweep	(1,073,546)	\$1,073,546
GASB Statement No. 3	\$2,566,621	\$1,073,546

**TORONTO CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

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

The amount available as an advance at June 30, 2004, was \$111,306 in the General Fund. The amount available as an advance at June 30, 2003, was \$254,662 in the General Fund.

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

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$42,228,220	51%	\$44,992,060	52%
Industrial/Commercial	8,193,400	10%	8,746,870	10%
Public Utility	3,509,520	4%	3,518,410	4%
Tangible Personal	29,229,923	35%	29,153,999	34%
Total Assessed Value	<u>\$83,161,063</u>	<u>100%</u>	<u>\$86,411,339</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$37.65		\$37.65	

7. RECEIVABLES

Receivables at June 30, 2004, consisted of property, accounts (rent and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$14,941
Title I	36,197
Title VI	3,585
Total Intergovernmental Receivables	<u>\$54,723</u>

**TORONTO CITY SCHOOL DISTRICT
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(Continued)**

8. CAPITAL ASSETS

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

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Non-Depreciable Capital Assets				
Land	\$215,638			\$215,638
Depreciable Capital Assets				
Land Improvements	913,281			913,281
Buildings and Building Improvements	5,197,951			5,197,951
Furniture, Fixtures, and Equipment	472,807	\$3,389		476,196
Vehicles	515,951			515,951
Books	233,584			233,584
Total Depreciable Capital Assets	<u>7,333,574</u>	<u>3,389</u>		<u>7,336,963</u>
Less Accumulated Depreciation				
Land Improvements	607,641	19,067		626,708
Buildings and Building Improvements	3,823,345	104,102		3,927,447
Furniture, Fixtures, and Equipment	355,708	22,934		378,642
Vehicles	327,411	34,547		361,958
Books	233,584			233,584
Total Accumulated Depreciation	<u>5,347,689</u>	<u>180,650</u>		<u>5,528,339</u>
Depreciable Capital Assets, Net	<u>1,985,885</u>	<u>(177,261)</u>		<u>1,808,624</u>
Governmental Activities Capital Assets, Net	<u>\$2,201,523</u>	<u>(\$177,261)</u>		<u>\$2,024,262</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$124,169
Special	2,492
Vocational	624
Support Services:	
Pupil	3,128
Administration	5,499
Operation and Maintenance of Plant	2,829
Pupil Transportation	32,341
Non-Instructional Services	1,177
Extracurricular	8,391
Total Depreciation Expense	<u>\$180,650</u>

The District restated Capital Assets at the beginning of the year as follows:

Balance at June 30, 2003	\$7,917,257
Restatement	<u>(368,045)</u>
Balance, Restated	<u>\$7,549,212</u>

**TORONTO CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted cash assets for capital improvements.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$37,135

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Insurance Carrier</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents	Indiana Insurance Company	\$5,000	\$30,452,000
Boiler and Machinery	Travelers Property Casualty	1,000	5,000,000
Automobile Liability	Indiana Insurance Company		1,000,000
Comprehensive		100	
Collision		250	
Uninsured Motorists	Indiana Insurance Company	250	1,000,000
Inland Marine	Indiana Insurance Company	500	309,192
General Liability	Marsh USA		
Per occurrence		0	2,000,000
Aggregate		0	4,000,000
Excess Liability (Umbrella)	Marsh USA		
Per occurrence		0	1,000,000
Aggregate		0	1,000,000
Errors & Omissions	Marsh USA		
Per occurrence		5,000	1,000,000
Aggregate		5,000	1,000,000
Terrorism Risk			

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

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**TORONTO CITY SCHOOL DISTRICT
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(Continued)**

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan, a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$362,010 reported in the Internal Service Fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$140,404	\$990,260	\$768,654	\$362,010
2004	\$362,010	\$620,320	\$763,383	\$218,947

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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 \$198,133, \$193,302, and \$183,702, respectively, 61 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contributions for fiscal year 2004 are \$75,576.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State

Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**TORONTO CITY SCHOOL DISTRICT
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(Continued)**

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$496,251, \$471,672, and \$448,139, respectively, 83 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$82,752.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected SERS.

**TORONTO CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 4.5% of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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(Continued)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for both certificated and classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for both certificated and classified employees.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government – Wide Financial Statements:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Pension Obligation	\$61,131	\$0	\$61,131	\$0	\$0
Compensated Absences	482,988	450,820	482,988	450,820	38,514
Total	<u>\$544,119</u>	<u>\$450,820</u>	<u>\$544,119</u>	<u>\$450,820</u>	<u>\$38,514</u>

Compensated absences and the retirement incentive will be paid from the fund from which the employees' salaries are paid.

The District's voted legal debt margin was \$7,779,217 with an unvoted debt margin of \$86,436 at June 30, 2004.

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds is required to be set aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2003	(\$68,833)		(\$68,833)
Current Year Set-aside Requirement	122,094	\$122,094	244,188
Qualifying Disbursements	(120,531)	(84,959)	(205,490)
Total	<u>(\$67,270)</u>	<u>\$37,135</u>	<u>(\$30,135)</u>
Set-aside Balance Carried Forward to FY 2005	<u>(\$67,270)</u>	<u>\$37,135</u>	<u>(\$30,135)</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements.

**TORONTO CITY SCHOOL DISTRICT
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(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid Eastern Regional Educational Service Agency (OME-RESA)

Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) is a jointly governed organization created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, an educational management information system, cooperative purchase services and legal services, to member districts. OME-RESA has eleven participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts. The Jefferson County Educational Service Center office serves as fiscal agent and receives funding from the State Department of Education. The continued existence of OME-RESA is not dependent on the District's continued participation and no equity interest exists. OME-RESA has no outstanding debt. To obtain financial information write to the Ohio Mid-Eastern Regional Service Agency, Debra Angelo, who serves as Treasurer, Steubenville, Ohio 43952.

B. Jefferson County Career Center

The Jefferson County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Jefferson County Career Center, Karen S. Spoonemore, who serves as Treasurer, at 1509 Co Hwy 22A, Bloomingdale, Ohio 43910-9781.

17. GROUP PURCHASING POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

B. Ohio Mid-Eastern Regional Education Service Agency Health Benefits Plan

The District participates in the Ohio Mid-Eastern Regional Education Service Agency Health Benefits Plan, an insurance purchasing pool. The Plan's business and affairs are conducted by a Board of Trustees consisting of the current Superintendent of each of the school districts and county boards of education in the Plan. The Executive Director, or his designee, serves as coordinator of the program. Each month, the participating school districts pay a premium to the Plan to cover the costs of administering the program.

18. SCHOOL FUNDING DECISION

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

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

19. INTERFUND BALANCES

As of June 30, 2004, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$346,547	\$0
Internal Service Fund	0	346,547
Totals	<u>\$346,547</u>	<u>\$346,547</u>

The primary purpose of the interfund balance is to eliminate negative fund balances.

20. INTERFUND TRANSFERS

During the year ended June 30, 2004, the District transferred \$26,000 from the General Fund to a Non-major Governmental Fund. This transfer was made to eliminate a deficit cash balance.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

21. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

22. SUBSEQUENT EVENTS

The 5 mill five-year operating levy was placed on the November 2, 2004 ballot for replacement and did pass which will generate \$432,178.75 annually.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2004

To the Board of Education
Toronto City School District
Toronto, OH 43964

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Toronto 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 December 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Toronto City School District in a separate letter dated December 20, 2004.

Compliance and Other Matters

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

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2004

To the Board of Education
Toronto City School District
Toronto, OH 43964

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

Hea & Associates, Inc.

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

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION (Passed through Ohio Department of Education)						
Title 1	84.010	044917-C1S1- 2003	\$ 49,179		\$ 56,424	
Ed Consol Improvement Act		044917-C1S1- 2004	215,531		187,703	
Total Title 1			<u>264,710</u>		<u>244,127</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	044917-6BSF-2003-P	0		10,032	
		044917-6BSF-2004-P	142,297		120,692	
Special Education - Preschool Grants	84.173	044917-PGS1-2004-P	5,014		4,937	
Total Special Education Cluster			<u>147,311</u>		<u>135,661</u>	
Title VI Ed Improve & Consol	84.298	044917-C2S1-2003	850		1,685	
		044917-C2S1-2004	4,206		3,810	
Total Title VI			<u>5,056</u>		<u>5,495</u>	
Safe, Drug-Free Schools & Communities Act Grant	84.186	044917-DRS1-2003	660		1,557	
		044917-DRS1-2004	6,930		6,930	
Total Safe, Drug-Free Schools			<u>7,590</u>		<u>8,487</u>	
Technology Literacy Challenge Fund Grant	84.318	044917-TJS1-2003	0		4,460	
		044917-TJS1-2004	6,795		6,675	
Total Technology Literacy Challenge Fund Grant			<u>6,795</u>		<u>11,135</u>	
Title II-A - Improving Teacher Quality	84.367	044917-TRS1-2003	0		21,596	
		044917-TRS1-2004	57,237		52,279	
Total Title II-A			<u>57,237</u>		<u>73,875</u>	
Get Hooked on Books	84.215	044917-	22,957		23,069	
Total U. S. Department of Education			<u>511,656</u>		<u>501,849</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Passed through Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program (CAFS)	93.778	FY2004	9,974		9,974	
Total U.S. Department Health and Human Services			<u>9,974</u>		<u>9,974</u>	
U. S. DEPARTMENT OF AGRICULTURE (Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program	10.550	FY2004		\$ 22,611		\$ 22,611
National School Lunch Program	10.555	044917-LLP4-2003	17,239		17,239	
		044917-LLP4-2004	82,471		82,471	
Total National School Lunch Program			<u>99,710</u>		<u>99,710</u>	
School Breakfast Program	10.553	044917-05PU-2003	3,053		3,053	
		044917-05PU-2004	21,172		21,172	
Total School Breakfast Program			<u>24,225</u>		<u>24,225</u>	
Special Milk Program	10.556	044917-02PU-2003	167		167	
		044917-02PU-2004	818		818	
Total Special Milk Program			<u>985</u>		<u>985</u>	
Total U.S. Department of Agriculture			<u>124,920</u>	<u>22,611</u>	<u>124,920</u>	<u>22,611</u>
Total Federal Financial Assistance			<u>\$ 646,550</u>	<u>\$ 22,611</u>	<u>\$ 636,743</u>	<u>\$ 22,611</u>

See accompanying notes to schedule of expenditures of federal awards.

TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY

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

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I	CFDA # 84.010
(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 AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

**4. SUMMARY SCHEDULE OF PRIOR AUDIT
FINDINGS AND CORRECTIVE ACTION PLAN**

NONE



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Betty Montgomery**

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**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**