

Alliance City School District
Stark County, Ohio

Audited Financial Statements

June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Alliance City School District
Alliance, Ohio

We have reviewed the *Independent Auditor's Report* of the Alliance City School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

March 17, 2006

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**ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2005

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**ALLIANCE CITY SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2005

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

January 6, 2006

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alliance City School District (the "School District"), Stark County, Ohio as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Alliance City School District, Stark County, Ohio as of June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 6, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of the Alliance City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$22,711,265 in revenue or 71.55 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$9,030,416 or 28.45 percent of total revenues of \$31,741,681.
- Total program expenses were \$33,186,601.
- In total, net assets decreased \$1,444,920
- Outstanding bonded debt decreased from \$10,754,990 to \$10,174,990 during 2005.

Using this Annual Report

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

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District's Fiduciary Responsibilities

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

The School District as a Whole

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

Table 1 provides a summary of the District's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

| | Governmental Activities | |
|--------------------------|-------------------------|----------------------|
| | 2005 | Restated 2004 |
| Assets | | |
| Current and Other Assets | \$ 16,086,204 | \$ 19,802,439 |
| Capital Assets | <u>53,707,560</u> | <u>53,008,172</u> |
| Total Assets | <u>69,793,764</u> | <u>72,810,611</u> |
| Liabilities | | |
| Other Liabilities | 14,366,289 | 15,314,795 |
| Long-Term Liabilities | <u>13,678,164</u> | <u>14,301,585</u> |
| Total Liabilities | <u>28,044,453</u> | <u>29,616,380</u> |
| Net Assets | | |
| Invested in Capital | | |
| Assets Net of Debt | 43,532,570 | 42,211,754 |
| Restricted | 5,445,026 | 6,301,288 |
| Unrestricted (Deficit) | <u>(7,228,285)</u> | <u>(5,318,811)</u> |
| Total Net Assets | <u>\$ 41,749,311</u> | <u>\$ 43,194,231</u> |

Total net assets decreased by \$1,444,920. An increase of approximately \$699,388 in total capital assets reflects new classroom facilities. Total liabilities has decreased by \$1,571,927 and was primarily a result of decrease in other liabilities.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparisons. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

| | 2005 | 2004 |
|---|----------------|--------------|
| Revenues | | |
| <i>Program Revenues:</i> | | |
| Charges for Services | \$ 1,492,756 | \$ 1,339,684 |
| Operating Grants | 7,375,033 | 6,438,669 |
| Capital Grants | 162,627 | 0 |
| <i>General Revenue:</i> | | |
| Property Taxes | 7,793,121 | 8,700,577 |
| Grants and Entitlements | 14,405,919 | 14,758,256 |
| Other | 512,225 | 640,495 |
| <i>Total Revenues</i> | 31,741,681 | 31,877,681 |
| Program Expenses: | | |
| Instruction | 20,809,698 | 18,467,106 |
| Support Services | 9,556,358 | 10,792,240 |
| Operation of Non-Instructional Services | 1,592,565 | 1,526,239 |
| Extracurricular Activities | 576,738 | 593,742 |
| Interest and Fiscal Charges | 651,242 | 567,067 |
| <i>Total Expenses</i> | 33,186,601 | 31,946,394 |
| Decrease in Net Assets | \$ (1,444,920) | \$ (68,713) |

Governmental Activities

Several revenue sources fund the District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$7,793,121 in 2005. General revenues from grants and entitlements, such as the school foundation program, are also a large revenue generator.

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

(Table 3)
Governmental Activities

| | Total Cost of Service 2005 | Total Cost of Service 2004 | Net Cost of Service 2005 | Net Cost of Service 2004 |
|---|----------------------------------|----------------------------------|--------------------------------|--------------------------------|
| Instruction | \$ 20,809,698 | \$ 18,467,106 | \$ 15,904,137 | \$ 14,753,787 |
| Support Services: | | | | |
| Pupil and Instructional Staff | 2,724,790 | 2,679,859 | 1,516,300 | 1,531,935 |
| Board of Education, Administration | | | | |
| Fiscal, Business and Central | 2,925,946 | 2,876,375 | 1,914,187 | 2,328,928 |
| Operation and Maintenance of Plant | 3,382,922 | 4,703,432 | 3,365,625 | 3,903,140 |
| Pupil Transportation | 522,700 | 532,574 | 522,700 | 510,031 |
| Operation of Non-Instructional Services | 1,592,565 | 1,526,239 | 170,503 | 213,584 |
| Extracurricular Activities | 576,738 | 593,742 | 111,491 | 359,569 |
| Interest and Fiscal Charges | 651,242 | 567,067 | 651,242 | 567,067 |
| Total | <u>\$ 33,186,601</u> | <u>\$ 31,946,394</u> | <u>\$ 24,156,185</u> | <u>\$ 24,168,041</u> |

Instruction and student support services comprise 71 percent of governmental program expenses. Interest, fiscal and administration charges were 2 percent. Interest expense was attributable to the outstanding bonds, fiscal expenses include payments to the County Auditor for administrative fees and other administrative services provided by the District. Extracurricular activities and operation of non-instructional services account for 7 percent of governmental program expenses.

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

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District did significantly modify its general fund budget. The District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$45,218,028 invested in land, buildings, vehicles and equipment, and construction in progress. See note 9 for additional details. Table 4 shows fiscal year 2005 balances compared with 2004.

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

| | Governmental Activities | |
|--|-------------------------|------------------|
| | 2005 | Restated 2004 |
| Land | \$ 2,383,003 | \$ 2,383,003 |
| Buildings and Building Improvements | 49,719,883 | 42,449,371 |
| Furniture, Equipment, Textbooks and Library Books | 1,146,370 | 1,482,103 |
| Vehicles | 222,664 | 197,153 |
| Construction in progress | 235,640 | 6,496,542 |
| Totals | \$ 53,707,560 | \$ 53,008,172 |

The \$699,388 increase in capital assets was attributable to additional purchases exceeding depreciation expense.

House Bill 412 requires the School District to set aside \$151.74 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2005, this amounted to \$430,308 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for both set asides.

Debt

At June 30, 2005, the District had \$10,599,663 in bonds outstanding with \$630,000 due within one year. See note 15 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

| | 2005 | Restated 2004 |
|--------------------------------------|--------------------------|------------------|
| | General Obligation Bonds | \$ 565,000 |
| Various School Serial and Term Bonds | 9,075,000 | 9,400,000 |
| Various Capital Appreciation Bonds | 959,663 | 852,015 |
| Total | \$ 10,599,663 | \$ 11,072,015 |

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Current Issues

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

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

The Alliance City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the District. Another District concern is the State Legislative approval of the biennial budget, effective July 1, 2005, which had a negative impact on the district. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dale Burdett, Treasurer, Alliance City School District, 220 Glamorgan, Alliance, OH 44601 or burdett@acs.sparcc.org.

Alliance City School District

Statement of Net Assets

June 30, 2005

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$ 6,142,836 |
| Receivables: | |
| Taxes | 8,906,827 |
| Accounts | 24,170 |
| Intergovernmental | 883,123 |
| Prepaid Items | 27,727 |
| Inventory Held For Resale | 39,652 |
| Materials and Supplies | 61,869 |
| Nondepreciable Capital Assets | 2,618,643 |
| Depreciable Capital Assets, Net | <u>51,088,917</u> |
| <i>Total Assets</i> | <u>69,793,764</u> |
| Liabilities | |
| Accounts Payable | 437,947 |
| Contracts Payable | 74,141 |
| Accrued Wages and Benefits | 5,710,178 |
| Accrued Vacation Payable | 28,017 |
| Matured Compensated Absences Payable | 108,413 |
| Intergovernmental Payable | 815,630 |
| Deferred Revenue | 7,148,245 |
| Accrued Interest Payable | 43,718 |
| Long Term Liabilities: | |
| Due Within One Year | 656,738 |
| Due In More Than One Year | <u>13,021,426</u> |
| <i>Total Liabilities</i> | <u>28,044,453</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 43,532,570 |
| Restricted for: | |
| Capital Projects | 2,869,582 |
| Debt Service | 1,049,483 |
| Other Purposes | 1,153,363 |
| Set Asides | 372,598 |
| Unrestricted | <u>(7,228,285)</u> |
| <i>Total Net Assets</i> | <u>\$ 41,749,311</u> |

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

Alliance City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

| | Program Revenues | | | Net (Expense) |
|---|----------------------|--------------------------------------|--|---|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Revenue and Changes in Net Assets |
| | | | Capital Grants and Contributions | Total Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$ 15,121,384 | \$ 254,355 | \$ 3,830,967 | \$ 0 |
| Special | 3,999,617 | 19,210 | 28,375 | 0 |
| Vocational | 841,958 | 21,189 | 0 | 161,364 |
| Adult Continuing | 520,703 | 297,804 | 292,297 | 0 |
| Other | 326,036 | 0 | 0 | 0 |
| Support Services: | | | | |
| Pupils | 1,472,442 | 15,042 | 398,762 | 0 |
| Instructional Staff | 1,252,348 | 0 | 794,686 | 0 |
| Board of Education | 16,889 | 0 | 0 | 0 |
| Administration | 2,537,499 | 79,510 | 848,683 | 0 |
| Fiscal | 195,483 | 0 | 0 | 0 |
| Business | 86,037 | 0 | 62,170 | 0 |
| Operation and Maintenance of Plant | 3,382,922 | 2,149 | 13,885 | 1,263 |
| Pupil Transportation | 522,700 | 0 | 0 | 0 |
| Central | 90,038 | 19,340 | 2,056 | 0 |
| Operation of Non-instructional Services: | | | | |
| Food Service Operations | 1,413,083 | 318,910 | 973,479 | 0 |
| Community Service Operations | 179,482 | 0 | 129,673 | 0 |
| Extracurricular Activities | 576,738 | 465,247 | 0 | 0 |
| Interest and Fiscal Charges | 651,242 | 0 | 0 | 0 |
| Total Governmental Activities | \$ 33,186,601 | \$ 1,492,756 | \$ 7,375,033 | \$ 162,627 |
| General Revenues | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | 6,282,695 |
| Debt Service | | | | 942,786 |
| Capital Outlay | | | | 335,410 |
| Other Purposes | | | | 232,230 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 14,405,919 |
| Investment Earnings | | | | 137,214 |
| Miscellaneous | | | | 375,011 |
| Total General Revenues | | | | 22,711,265 |
| Change in Net Assets | | | | (1,444,920) |
| <i>Net Assets Beginning of Year - Restated (See Note 3)</i> | | | | 43,194,231 |
| <i>Net Assets End of Year</i> | | | | \$ 41,749,311 |

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

Alliance City School District
Balance Sheet
Governmental Funds
June 30, 2005

| | General | Bond Retirement | Classroom Facilities | All Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|-------------------------|------------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 308,941 | \$ 876,974 | \$ 2,123,695 | \$ 2,428,251 | \$ 5,737,861 |
| Restricted Cash and Cash Equivalents | 404,975 | 0 | 0 | 0 | 404,975 |
| Receivables: | | | | | |
| Taxes | 7,401,573 | 1,095,139 | 0 | 410,115 | 8,906,827 |
| Accounts | 19,630 | 0 | 0 | 4,540 | 24,170 |
| Interfund | 0 | 0 | 0 | 813 | 813 |
| Intergovernmental | 0 | 0 | 37,246 | 845,877 | 883,123 |
| Prepaid Items | 25,111 | 0 | 0 | 2,616 | 27,727 |
| Inventory Held For Resale | 0 | 0 | 0 | 39,652 | 39,652 |
| Materials and Supplies | 61,869 | 0 | 0 | 0 | 61,869 |
| <i>Total Assets</i> | <u>\$ 8,222,099</u> | <u>\$ 1,972,113</u> | <u>\$ 2,160,941</u> | <u>\$ 3,731,864</u> | <u>\$ 16,087,017</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 335,777 | \$ 0 | \$ 5,982 | \$ 96,188 | \$ 437,947 |
| Contracts Payable | 0 | 0 | 57,406 | 16,735 | 74,141 |
| Accrued Wages and Benefits | 2,670,646 | 0 | 0 | 604,540 | 3,275,186 |
| Matured Compensated Absences Payable | 108,413 | 0 | 0 | 0 | 108,413 |
| Interfund Payable | 813 | 0 | 0 | 0 | 813 |
| Intergovernmental Payable | 599,948 | 0 | 0 | 215,682 | 815,630 |
| Deferred Revenue | 6,893,479 | 1,019,961 | 37,246 | 777,350 | 8,728,036 |
| <i>Total Liabilities</i> | 10,609,076 | 1,019,961 | 100,634 | 1,710,495 | 13,440,166 |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 76,751 | 0 | 115,370 | 574,267 | 766,388 |
| Reserved for Inventory | 61,869 | 0 | 0 | 39,652 | 101,521 |
| Reserved for Property Taxes | 508,094 | 75,178 | 0 | 28,153 | 611,425 |
| Reserved for Textbook/Instructional Materials | 372,598 | 0 | 0 | 0 | 372,598 |
| Reserved for Bus Purchases | 32,377 | 0 | 0 | 0 | 32,377 |
| Undesignated, Unreserved Reported in: | | | | | |
| General Fund | (3,438,666) | 0 | 0 | 0 | (3,438,666) |
| Special Revenue Funds | 0 | 0 | 0 | 1,038,698 | 1,038,698 |
| Debt Service Fund | 0 | 876,974 | 0 | 0 | 876,974 |
| Capital Projects Funds | 0 | 0 | 1,944,937 | 340,599 | 2,285,536 |
| <i>Total Fund Balances</i> | <u>(2,386,977)</u> | <u>952,152</u> | <u>2,060,307</u> | <u>2,021,369</u> | <u>2,646,851</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 8,222,099</u> | <u>\$ 1,972,113</u> | <u>\$ 2,160,941</u> | <u>\$ 3,731,864</u> | <u>\$ 16,087,017</u> |

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

Alliance City School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets Governmental Activities
June 30, 2005*

| | | |
|---|----|-----------|
| Total Governmental Fund Balances | \$ | 2,646,851 |
|---|----|-----------|

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

| | | |
|---|--|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 53,707,560 |
|---|--|------------|

| | | |
|--|------------------|-----------|
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Grants | \$ 432,634 | |
| Delinquent Property Taxes | <u>1,147,157</u> | |
| Total | | 1,579,791 |

| | | |
|--|--|----------|
| In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. | | (43,718) |
|--|--|----------|

| | | |
|--|--------------------|---------------------|
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| General Obligation Bonds | (9,640,000) | |
| Capital Appreciation Bonds | (959,663) | |
| Accrued Wages and Benefits | (2,434,992) | |
| Accrued Vacation Payable | (28,017) | |
| Compensated Absences | <u>(3,078,501)</u> | |
| Total | | <u>(16,141,173)</u> |

| | | |
|--|----|--------------------------|
| <i>Net Assets of Governmental Activities</i> | \$ | <u><u>41,749,311</u></u> |
|--|----|--------------------------|

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

Alliance City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

| | General | Bond Retirement | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 6,931,362 | \$ 1,023,929 | \$ 0 | \$ 402,736 | \$ 8,358,027 |
| Intergovernmental | 14,560,883 | 137,117 | 97,051 | 6,765,541 | 21,560,592 |
| Investment Income | 51,696 | 0 | 52,859 | 32,659 | 137,214 |
| Tuition and Fees | 161,547 | 0 | 0 | 464,300 | 625,847 |
| Extracurricular Activities | 0 | 0 | 0 | 461,238 | 461,238 |
| Rentals | 6,320 | 0 | 0 | 9,563 | 15,883 |
| Charges for Services | 53,498 | 0 | 0 | 336,290 | 389,788 |
| Contributions and Donations | 0 | 0 | 0 | 224,496 | 224,496 |
| Miscellaneous | 153,483 | 0 | 0 | 200,878 | 354,361 |
| <i>Total Revenues</i> | <u>21,918,789</u> | <u>1,161,046</u> | <u>149,910</u> | <u>8,897,701</u> | <u>32,127,446</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 11,342,453 | 0 | 0 | 2,305,562 | 13,648,015 |
| Special | 2,718,643 | 0 | 0 | 1,281,553 | 4,000,196 |
| Vocational | 722,565 | 0 | 0 | 101,558 | 824,123 |
| Adult Continuing | 0 | 0 | 0 | 549,893 | 549,893 |
| Other | 317,157 | 0 | 0 | 6,214 | 323,371 |
| Support Services: | | | | | |
| Pupils | 826,778 | 0 | 0 | 672,439 | 1,499,217 |
| Instructional Staff | 452,016 | 0 | 0 | 653,561 | 1,105,577 |
| Board of Education | 17,340 | 0 | 0 | 0 | 17,340 |
| Administration | 1,746,970 | 16,464 | 0 | 851,201 | 2,614,635 |
| Fiscal | 223,904 | 0 | 0 | 1,326 | 225,230 |
| Business | 73,256 | 0 | 0 | 16,709 | 89,965 |
| Operation and Maintenance of Plant | 2,923,135 | 0 | 0 | 579,883 | 3,503,018 |
| Pupil Transportation | 553,206 | 0 | 0 | 21,149 | 574,355 |
| Central | 34,332 | 0 | 0 | 48,411 | 82,743 |
| Operation of Non-instructional Services: | | | | | |
| Food Service Operations | 0 | 0 | 0 | 1,432,270 | 1,432,270 |
| Community Service Operations | 0 | 0 | 0 | 187,400 | 187,400 |
| Extracurricular Activities | 314,391 | 0 | 0 | 262,430 | 576,821 |
| Capital Outlay | 41,758 | 0 | 1,692,354 | 613,916 | 2,348,028 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 580,000 | 0 | 0 | 580,000 |
| Interest and Fiscal Charges | 0 | 541,304 | 0 | 0 | 541,304 |
| <i>Total Expenditures</i> | <u>22,307,904</u> | <u>1,137,768</u> | <u>1,692,354</u> | <u>9,585,475</u> | <u>34,723,501</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (389,115) | 23,278 | (1,542,444) | (687,774) | (2,596,055) |
| Other Financing Sources | | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 0 | 20,650 | 20,650 |
| <i>Net Change in Fund Balances</i> | (389,115) | 23,278 | (1,542,444) | (667,124) | (2,575,405) |
| <i>Fund Balances Beginning of Year</i> | (2,000,324) | 928,874 | 3,602,751 | 2,684,335 | 5,215,636 |
| <i>Increase in Reserve for Inventory</i> | 2,462 | 0 | 0 | 4,158 | 6,620 |
| <i>Fund Balances (Deficit) End of Year</i> | <u>\$ (2,386,977)</u> | <u>\$ 952,152</u> | <u>\$ 2,060,307</u> | <u>\$ 2,021,369</u> | <u>\$ 2,646,851</u> |

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

Alliance City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ (2,575,405)

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

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

| | | |
|---------------------------|--------------|---------|
| Capital Asset Additions | \$ 2,501,923 | |
| Current Year Depreciation | (1,802,535) | |
| | | |
| Total | | 699,388 |

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

| | | |
|---------------------------|-----------|-----------|
| Grants | 158,491 | |
| Delinquent Property Taxes | (564,907) | |
| | | |
| Total | | (406,416) |

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

580,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

| | | |
|------------------|-----------|-----------|
| Accrued Interest | (2,290) | |
| Bond Accretion | (107,648) | |
| | | |
| Total | | (109,938) |

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

| | | |
|----------------------|----------|---------|
| Change in Inventory | 6,620 | |
| Compensated Absences | 151,071 | |
| Pension Obligation | 237,777 | |
| Accrued Benefits | (28,017) | |
| | | |
| Total | | 367,451 |

Change in Net Assets of Governmental Activities \$ (1,444,920)

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

Alliance City School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

| | <u>Budgeted Amounts</u> | | | Variance With Final Budget Positive (Negative) |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Taxes | \$ 6,806,481 | \$ 6,806,481 | \$ 6,891,971 | \$ 85,490 |
| Intergovernmental | 14,328,851 | 14,747,301 | 14,643,166 | (104,135) |
| Investment Income | 20,000 | 20,000 | 51,804 | 31,804 |
| Tuition and Fees | 120,000 | 165,315 | 163,644 | (1,671) |
| Rent | 0 | 0 | 6,320 | 6,320 |
| Charges for Services | 30,000 | 30,000 | 53,498 | 23,498 |
| Miscellaneous | 30,000 | 136,543 | 152,584 | 16,041 |
| <i>Total Revenues</i> | <u>21,335,332</u> | <u>21,905,640</u> | <u>21,962,987</u> | <u>57,347</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,127,157 | 11,842,611 | 11,204,906 | 637,705 |
| Special | 2,603,044 | 2,707,119 | 2,692,904 | 14,215 |
| Vocational | 816,750 | 826,541 | 744,598 | 81,943 |
| Other | 285,000 | 302,264 | 300,111 | 2,153 |
| Support Services: | | | | |
| Pupils | 930,577 | 849,119 | 811,594 | 37,525 |
| Instructional Staff | 452,803 | 451,947 | 457,544 | (5,597) |
| Board of Education | 19,600 | 17,863 | 16,776 | 1,087 |
| Administration | 1,708,588 | 1,772,571 | 1,773,030 | (459) |
| Fiscal | 225,228 | 207,904 | 216,620 | (8,716) |
| Business | 72,000 | 67,853 | 68,732 | (879) |
| Operation and Maintenance of Plant | 3,172,552 | 2,867,294 | 2,900,735 | (33,441) |
| Pupil Transportation | 579,652 | 562,307 | 530,531 | 31,776 |
| Central | 34,500 | 31,709 | 31,720 | (11) |
| Extracurricular Activities | 0 | 0 | 305,071 | (305,071) |
| Capital Outlay | 38,000 | 41,758 | 41,758 | 0 |
| <i>Total Expenditures</i> | <u>22,065,451</u> | <u>22,548,860</u> | <u>22,096,630</u> | <u>452,230</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(730,119)</u> | <u>(643,220)</u> | <u>(133,643)</u> | <u>509,577</u> |
| Other Financing Uses | | | | |
| Other Financing Uses | 0 | (86,907) | 0 | 86,907 |
| <i>Net Change in Fund Balance</i> | (730,119) | (730,127) | (133,643) | 596,484 |
| <i>Fund Balance Beginning of Year</i> | 623,901 | 623,901 | 623,901 | 0 |
| Prior Year Encumbrances Appropriated | 106,220 | 106,220 | 106,220 | 0 |
| <i>Fund Balance (Deficit) End of Year</i> | <u>\$ 2</u> | <u>\$ (6)</u> | <u>\$ 596,478</u> | <u>\$ 596,484</u> |

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

Alliance City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

| | Private Purpose Trust | |
|--|--------------------------|------------|
| | Scholarships | Agency |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 19,547 | \$ 134,938 |
| Accounts Receivable | 0 | 24 |
| <i>Total Assets</i> | 19,547 | 134,962 |
| Liabilities | | |
| Accounts Payable | 0 | 87 |
| Due to Students | 0 | 134,875 |
| <i>Total Liabilities</i> | 0 | \$ 134,962 |
| Net Assets | | |
| Held in Trust for Scholarships | 19,547 | |
| <i>Total Net Assets</i> | \$ 19,547 | |

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

Alliance City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

| | Private Purpose Trust |
|--|--------------------------|
| | Scholarships |
| Additions | |
| Gifts and Contributions | \$ 906 |
| Interest | 348 |
| | 1,254 |
| <i>Total Additions</i> | 1,254 |
| Deductions | |
| Payments in Accordance with Trust Agreements | 1,104 |
| | 150 |
| <i>Change in Net Assets</i> | 150 |
| <i>Net Assets Beginning of Year</i> | 19,397 |
| | 19,397 |
| <i>Net Assets End of Year</i> | \$ 19,547 |

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

The Alliance City School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2004 was 3,096. The School District employed 238 certified employees and 190 non-certified employees.

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

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

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

The School District participates in a jointly governed organization and two public entity risk pools. These organizations are the Stark/Portage Area Computer Consortium (SPARCC), the Ohio School Board Association Workers’ Compensation Group Rating Program, and the Stark County Schools Council of Governments Risk Sharing Pool. They are presented in Notes 16 and 17.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

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

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to repurchase agreements, STAROhio and certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$51,696, which includes \$38,647 assigned from other School District funds.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On fund financial statements, reported inventories are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net assets.

Inventories consisted of materials and supplies held for consumption, and donated and purchased food held for resale.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by statute to be set aside for the purchase of textbooks and other instructional materials. See Note 20 for additional information regarding set-asides.

J. Capital Assets

The School District's only capital assets are general capital assets. 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 in the fund financial statements.

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------|------------------------|
| Buildings and Improvements | 5-40 Years |
| Furniture and Equipment | 5-15 Years |
| Vehicles | 5-10 Years |
| Textbooks and Library Books | 7-10 Years |

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

L. Compensated Absences

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

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

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the funds from which the employee will be paid.

M. Accrued Liabilities and Long-Term Obligations

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Net Assets

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

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

O. Fund Balance Reserves

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

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 3 – RESTATEMENT OF NET ASSETS

For fiscal year 2005, the School District increased its capitalization threshold to \$5,000 and contracted with a professional outside party to perform a complete asset valuation. As a result, the cost of capital assets in governmental activities decreased by \$10,566,246 and accumulated depreciation decreased by \$2,001,316. Also, in the prior year accretion was not recorded on capital appreciation bonds in the amount of \$317,025. A negative adjustment to net assets was needed to account for the adjustments.

| | Governmental Activities |
|--|----------------------------|
| Previously Reported Net Assets, 06/30/04 | \$ 52,076,186 |
| Change in Value of Capital Assets: | |
| Cost | (10,566,246) |
| Accumulated Depreciation | 2,001,316 |
| Accretion on Capital Appreciation Bonds | (317,025) |
| Restated Net Assets, 07/01/04 | \$ 43,194,231 |

NOTE 4 – ACCOUNTABILITY

Deficit fund balances at June 30, 2005 including the following individual fund deficits:

| | |
|----------------------------|--------------|
| <u>Major Fund</u> | |
| General Fund | \$ 2,386,977 |
| <u>Non-Major Funds</u> | |
| Career Development | 448 |
| Schoolnet Plus | 13 |
| Disadvantaged Pupils | 215,794 |
| Title I | 31,120 |
| Drug-Free Schools | 783 |
| Title VI-B Preschool | 238 |
| Title VI-R | 1,450 |

The deficit fund balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in this fund and provides operating transfers when cash is required, rather than when accruals occur.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

| <u>Net Change in Fund Balance</u> | |
|---|----------------------------|
| | <u>General</u> |
| GAAP Basis | \$ (389,115) |
| Net Adjustment for Revenue Accruals | 44,197 |
| Net Adjustment for Expenditure Accruals | 328,711 |
| Encumbrances | <u>(117,436)</u> |
| Budget Basis | <u><u>\$ (133,643)</u></u> |

NOTE 6 - DEPOSITS AND INVESTMENTS

State statues classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAROhio).
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days from the purchase date in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and,
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2005, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$16,350. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$396,339 of the School District's bank balance of \$496,339 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2005, the School District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | |
|------------------------|---------------------|------------------------------|-----------------------|------------------------|------------------------|
| | | <u>6 Months or Less</u> | <u>7 to 12 Months</u> | <u>13 to 18 Months</u> | <u>19 to 24 Months</u> |
| STAROhio | <u>\$ 6,280,971</u> | <u>\$ 6,280,971</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to five years or less for investments with a fixed interest rate and two years or less for investments with a variable interest rate.

Credit Risk Standard & Poor's has assigned STAROhio an AAA rating.

Concentration of Credit Risk The School District places no limit on the amount that may be invested in any one issuer. 100 percent of the School District's investments are in STAROhio.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid 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 property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Stark, Columbiana and Mahoning Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2005, was \$508,094 in the general fund, \$75,178 in the bond retirement debt service fund, \$20,402 in the permanent improvement capital projects fund, and \$28,153 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2004, was \$468,703 in the general fund, \$70,987 in the bond retirement debt service fund, and \$7,287 in the classroom facilities maintenance special revenue fund.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (Continued)

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second-Half Collections | | 2005 First-Half Collections | |
|--|---------------------------------|---------|--------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Residential/Agricultural | \$ 170,269,030 | 66% | \$ 170,510,520 | 66% |
| Commercial/Industrial | 46,988,830 | 18% | 47,705,380 | 18% |
| General | 28,443,007 | 11% | 29,527,537 | 11% |
| Public Utilities | 12,275,390 | 5% | 12,348,370 | 5% |
| | | | | |
| Total Assessed Value | \$ 257,976,257 | 100% | \$ 260,091,807 | 100% |
| | | | | |
| Tax rate per \$1,000 of Assessed Value | \$ 54.10 | | \$ 61.50 | |

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of property taxes, accounts (tuition and fees), intergovernmental, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities | Amounts |
|---|------------|
| Ohio School Facilities Commission Grant | \$ 37,246 |
| Adult Continuing Education | 23,686 |
| Public School | 5,592 |
| Ohio Reads | 7,285 |
| Summer Reading Intervention | 8,207 |
| Carol Perkins | 4,268 |
| Title VI-B | 117,151 |
| Title VI | 4,816 |
| Title I | 325,062 |
| Title VI-B Preschool | 8,250 |
| Title VI-R | 102,670 |
| FCC E-rate | 44,957 |
| Drug Free School | 11,955 |
| Drug and Violence Prevention | 181,978 |
| | |
| Total Intergovernmental Receivables | \$ 883,123 |

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

| | Restated 6/30/2004 | Additions | Reductions | Balance 6/30/2005 |
|--|-----------------------|---------------|----------------|----------------------|
| Governmental Activities: | | | | |
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$ 2,383,003 | \$ 0 | \$ 0 | \$ 2,383,003 |
| Construction in Progress | 6,496,542 | 235,640 | (6,496,542) | 235,640 |
| <i>Total Nondepreciable Capital Assets</i> | 8,879,545 | 235,640 | (6,496,542) | 2,618,643 |
| <i>Depreciable Capital Assets:</i> | | | | |
| Building and Improvements | 46,820,565 | 8,608,930 | 0 | 55,429,495 |
| Furniture and Equipment | 1,233,424 | 5,489 | 0 | 1,238,913 |
| Vehicles | 1,169,761 | 83,947 | 0 | 1,253,708 |
| Textbooks and Library Books | 1,491,847 | 0 | 0 | 1,491,847 |
| <i>Total Capital Assets, Being Depreciated</i> | 50,715,597 | 8,698,366 | 0 | 59,413,963 |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Building and Improvements | (4,306,735) | (1,402,877) | 0 | (5,709,612) |
| Furniture and Equipment | (638,231) | (92,581) | 0 | (730,812) |
| Vehicles | (972,608) | (58,436) | 0 | (1,031,044) |
| Textbooks and Library Books | (604,937) | (248,641) | 0 | (853,578) |
| Total Accumulated Depreciation | (6,522,511) | (1,802,535) * | 0 | (8,325,046) |
| <i>Total Capital Assets Being Depreciated, Net</i> | 44,193,086 | 6,895,831 | 0 | 51,088,917 |
| <i>Governmental Activities Capital Assets, Net</i> | \$ 53,072,631 | \$ 7,131,471 | \$ (6,496,542) | \$ 53,707,560 |

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental activities as follows:

| | |
|--|-------------------------|
| Instruction: | |
| Regular | \$ 1,506,796 |
| Vocational | 18,178 |
| Support Services: | |
| Instructional Staff | 179,363 |
| Administration | 6,465 |
| Operation and Maintenance of Plant | 4,843 |
| Pupil Transportation | 58,437 |
| Central | 15,126 |
| Operational of Non-Instructional Services: | |
| Food Service Operations | 12,743 |
| Extracurricular Activities | <u>584</u> |
| Total Depreciation Expense | <u>\$ 1,802,535</u> |

NOTE 10 – INTERFUND BALANCES

On the fund financial statements, the other local grants special revenue fund reported on interfund receivable at June 30, 2005 of \$813. The general fund had an interfund payable in the amount of \$813. This represents an overpayment of an advance repayment in the prior fiscal year. This will be repaid within one year.

NOTE 11 – RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005 the School District contracted with Selective Insurance Company of South Carolina for property, general liability, fleet, umbrella, and inland marine insurance. Selective Insurance Company of South Carolina covers boiler and machinery with a \$40,000,000 single occurrence limit and a \$1,000 deductible. Vehicles have a \$500 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability.

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

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)

For fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,980,936, \$1,974,552 and \$2,165,604, respectively; 88 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$346,208, representing the unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 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 2005, 10.57 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 a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$555,936, \$559,068 and \$566,400, respectively; 49 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$283,080, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$141,495 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the fund was \$3.3 billion. For the year ended June 30, 2005 net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$249,444.

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – EMPLOYEE BENEFITS

Compensated Absences

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

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

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during the fiscal year 2005 were as follows:

| | Restated Principal Outstanding June 30, 2004 | Additions | Deductions | Principal Outstanding June 30, 2005 | Amounts Due Within One Year |
|---|---|-------------------|---------------------|---|-----------------------------------|
| Governmental Activities | | | | | |
| 1991 School Improvement Bonds - \$2,900,000 4.75-9.40% | \$ 820,000 | \$ 0 | \$ (255,000) | \$ 565,000 | \$ 275,000 |
| 2000 Classroom Facilities Bonds - \$9,564,991 5.00-5.80% | | | | | |
| Serial and Term Bonds | 8,150,000 | 0 | (285,000) | 7,865,000 | 310,000 |
| Capital Appreciation Bonds | 494,991 | 0 | 0 | 494,991 | 0 |
| Accretion on Capital Appreciation Bonds | 295,735 | 98,497 | 0 | 394,232 | 0 |
| 2001 School Improvement Bonds - \$1,399,999 3.50-5.30% | | | | | |
| Serial and Term Bonds | 1,250,000 | 0 | (40,000) | 1,210,000 | 45,000 |
| Capital Appreciation Bonds | 39,999 | 0 | 0 | 39,999 | 0 |
| Accretion on Capital Appreciation Bonds | 21,290 | 9,151 | 0 | 30,441 | 0 |
| Compensated Absences | 3,229,570 | 0 | (151,069) | 3,078,501 | 26,738 |
| <i>Total Governmental Activities</i> | | | | | |
| <i>Long-Term Liabilities</i> | <u>\$ 14,301,585</u> | <u>\$ 107,648</u> | <u>\$ (731,069)</u> | <u>\$ 13,678,164</u> | <u>\$ 656,738</u> |

On June 1, 1991, the School District issued \$2,900,000 in voted general obligation bonds for the purpose of construction of an addition to South Lincoln Elementary. The bonds were issued for a fifteen year period with a final maturity at December 1, 2006.

On July 7, 2000, the School District issued \$9,564,991 in voted general obligation bonds for the purpose of various construction and renovations projects throughout the School District. The bonds were issued for a twenty-two year period with a final maturity at December 1, 2022.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

On May 21, 2001, the School District issued \$1,399,999 in voted general obligation bonds for the purpose of land acquisition. The bonds were issued for a twenty-one year period with a final maturity at December 1, 2022.

General obligation bonds will be paid from tax revenues in the debt service fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

2000 Classroom Facilities General Obligation Bonds

On July 7, 2000, the School District issued \$9,564,991 of general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$2,630,000, \$6,440,000 and \$494,991, respectively. The bonds were issued for the purpose of various construction and renovations projects throughout the School District. The bonds were issued for a twenty-two year period with a final maturity at December 1, 2022.

The serial bonds were issued with a varying interest rate of 5.0 – 5.20 percent. The term bonds that mature in fiscal year 2022, with an interest rate of 5.50 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2013, and on each December thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

| <u>Fiscal Year</u> | <u>Principal Amount to be Redeemed</u> |
|--------------------|--|
| 2013 | \$ 455,000 |
| 2014 | 495,000 |
| 2015 | 535,000 |
| 2016 | 570,000 |
| 2017 | 615,000 |
| 2018 | 655,000 |
| 2019 | 705,000 |
| 2020 | 750,000 |
| 2021 | 805,000 |

The capital appreciation bonds mature December 1, 2008 through December 1, 2011. These bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$1,565,000. For fiscal year 2005, the accretion amount was \$98,497.

The term bonds maturing on or after December 1, 2012 are subject to optional redemption, in whole or in part on any date in order of maturity as determined by the District and by lot within a maturity, at the option of the Board of Education on or after December 1, 2010.

2001 School Improvement Bonds

On May 21, 2001, the School District issued \$1,399,999 of general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$540,000, \$820,000 and \$39,999, respectively. The bonds were issued for the purpose of land acquisition. The bonds were issued for a twenty-one year period with a final maturity at December 1, 2022.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

The serial bonds were issued with a varying interest rate of 3.5 – 4.6 percent. The term bonds that mature in fiscal year 2017, with an interest rate of 5.125 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2015, and on each December thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

| Fiscal Year | Principal Amount to be Redeemed |
|-------------|---------------------------------|
| 2015 | \$ 80,000 |
| 2016 | 85,000 |

The term bonds due December 1, 2022, with an interest rate of 5.20 percent, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2018, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

| Fiscal Year | Principal Amount to be Redeemed |
|-------------|---------------------------------|
| 2018 | \$ 100,000 |
| 2019 | 105,000 |
| 2020 | 115,000 |
| 2021 | 120,000 |

The capital appreciation bonds mature December 1, 2012 through December 1, 2014. These bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$225,000. For fiscal year 2005, the accretion amount was \$9,151.

The School District's overall debt margin was \$14,172,279 with an unvoted margin of \$259,946 at June 30, 2005. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

| | General Obligation Bonds | | Capital Appreciation Bonds | | Total | |
|-----------|--------------------------|--------------|----------------------------|--------------|---------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 630,000 | \$ 506,473 | \$ 0 | \$ 0 | \$ 630,000 | \$ 506,473 |
| 2007 | 670,000 | 469,056 | 0 | 0 | 670,000 | 469,056 |
| 2008 | 405,000 | 439,851 | 0 | 0 | 405,000 | 439,851 |
| 2009 | 55,000 | 428,730 | 132,240 | 247,760 | 187,240 | 676,490 |
| 2010 | 60,000 | 426,215 | 125,687 | 259,313 | 185,687 | 685,528 |
| 2011-2015 | 1,510,000 | 1,993,634 | 277,063 | 747,937 | 1,787,063 | 2,741,571 |
| 2016-2020 | 3,540,000 | 1,266,112 | 0 | 0 | 3,540,000 | 1,266,112 |
| 2021-2023 | 2,770,000 | 254,651 | 0 | 0 | 2,770,000 | 254,651 |
| Total | \$ 9,640,000 | \$ 5,784,722 | \$ 534,990 | \$ 1,255,010 | \$ 10,174,990 | \$ 7,039,732 |

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Stark, Portage and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC. SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Services Center serves as the fiscal agent of the consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the School District's continued participation and no equity interest exists. During the year ended June 30, 2005, the School District paid approximately \$52,297.

NOTE 17 – PUBLIC ENTITY RISK POOLS

A. Stark County Schools Council of Governments Health Benefit Plan

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

B. Insurance Purchasing Pool

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

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 – CONTRACTUAL COMMITMENTS

As of June 30, 2005, the School District has commitments with the following companies for renovation and construction of the new middle school and new elementary school, renovations for the high school and elementary schools, and various other renovations.

| | Contract Amount | Amount Paid as of June 30, 2005 | Amount Remaining on Contract |
|-----------------------------|---------------------|---------------------------------------|------------------------------------|
| Felisky & Sons | \$ 338,983 | \$ 149,070 | \$ 189,913 |
| Breining Mechanical | 49,900 | 4,066 | 45,834 |
| Wood Electric | 67,603 | 20,120 | 47,483 |
| David Williams & Associates | 126,267 | 124,566 | 1,701 |
| R.P. Carbone | 55,687 | 18,442 | 37,245 |
| Feinman Mechanical | 57,602 | 13,317 | 44,285 |
| Western Reserve Mechanical | 405,981 | 399,581 | 6,400 |
| Riccuti Balog Architects | 177,974 | 153,616 | 24,358 |
| Hilscher-Clarke Electric | 437,242 | 432,142 | 5,100 |
| American Demolition | 280,000 | 238,452 | 41,548 |
| D & A Plumbing | 120,463 | 120,164 | 299 |
| Xi-Tech | 272,652 | 271,567 | 1,085 |
| Total | <u>\$ 2,390,354</u> | <u>\$ 1,945,103</u> | <u>\$ 445,251</u> |

NOTE 19 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 20 – SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for 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 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.

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

| | <u>Textbooks</u> | <u>Capital Improvements</u> | <u>Totals</u> |
|---|-------------------|---------------------------------|-----------------------|
| Set-aside Reserve Balance as of June 30, 2004 | \$ 422,228 | \$ (7,444,296) | \$ (7,022,068) |
| Current Year Set-Aside Requirement | 430,308 | 430,308 | 860,616 |
| Current Year Offsets | 0 | (428,050) | (428,050) |
| Current Year Qualifying Disbursements | <u>(479,938)</u> | <u>0</u> | <u>(479,938)</u> |
| Totals | <u>\$ 372,598</u> | <u>\$ (7,442,038)</u> | <u>\$ (7,069,440)</u> |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>\$ 372,598</u> | <u>\$ (7,442,038)</u> | |
| Set-Aside Reserve Balance as of June 30, 2005 | <u>\$ 372,598</u> | <u>\$ 0</u> | |

The School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements for future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$372,598.

NOTE 21 – STATE SCHOOL FUNDING DECISION

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

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 6, 2006

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alliance City School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 6, 2006. 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 School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated January 6, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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

January 6, 2006

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

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

Compliance

We have audited the compliance of the Alliance City School District (the "School 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, 2005. The School District's major federal programs are 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 School District's management. Our responsibility is to express an opinion on the School 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 School 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 School District's compliance with those requirements.

In our opinion, the School 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, 2005.

Internal Control Over Compliance

The management of the School 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 School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Hea & Associates, Inc.

ALLIANCE CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | CFDA Number | Grant Number | Federal Receipts | Non-Cash Receipts | Federal Disbursements | Non-Cash Disbursements |
|--|----------------|-----------------|---------------------|----------------------|--------------------------|---------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| Passed through Ohio Department of Education: | | | | | | |
| Title 1, Part A | | C1S1 - 2004 | \$ 91,205 | | \$ 212,099 | |
| School Improvement Grant | 84.010 | C1S1 - 2005 | 1,149,852 | | 1,129,962 | |
| | | C1SK - 2005 | 900 | | 0 | |
| Total Title 1 | | | 1,241,957 | | 1,342,061 | |
| Special Education Cluster: | | | | | | |
| Title VI-B | 84.027 | 6BSF - 2004 | 21,249 | | 51,900 | |
| | | 6BSF - 2005 | 690,586 | | 690,119 | |
| Title VI-B Preschool | 84.173 | PGS1 - 2004 | 2,416 | | 6,382 | |
| | | PGS1 - 2005 | 15,460 | | 11,569 | |
| Total Special Education Cluster | | | 729,711 | | 759,970 | |
| 21st Century Community Learning Centers | | | | | | |
| | 84.287 | T1S1 - 2003 | (28,930) | | 0 | |
| | | T1S1 - 2004 | 9,177 | | 30,841 | |
| | | T1S1 - 2005 | 325,570 | | 301,564 | |
| Total 21st Century Community Learning Centers | | | 305,817 | | 332,405 | |
| Title V | | | | | | |
| | 84.298 | C2S1 - 2004 | (4,865) | | 1,582 | |
| | | C2S1 - 2005 | 28,424 | | 26,344 | |
| Total Title V | | | 23,559 | | 27,926 | |
| Drug Prevention | | | | | | |
| | 84.184 | | 22,002 | | 22,002 | |
| Total Drug Prevention | | | 22,002 | | 22,002 | |
| Safe, Drug-Free Schools & Communities Act Grant | | | | | | |
| | 84.186 | DRS1 - 2004 | (1,566) | | 7,224 | |
| | | DRS1 - 2005 | 20,445 | | 16,046 | |
| Total Safe, Drug-Free Schools | | | 18,879 | | 23,270 | |
| Carl Perkins Grant | | | | | | |
| | 84.048 | | 57,811 | | 57,811 | |
| | | | 0 | | 97 | |
| | | | 178,455 | | 169,702 | |
| Total Carl Perkins Grant | | | 236,266 | | 227,610 | |
| Character in Education | | | | | | |
| | 84.215 | | 66,944 | | 66,966 | |
| | | | 175,160 | | 175,160 | |
| Total Character in Education | | | 242,104 | | 242,126 | |
| EETT Technology Literacy Challenge Grant | | | | | | |
| | 84.318 | | 322,231 | | 326,649 | |
| Northside CSR Grant | | | | | | |
| | 84.332 | | (11,360) | | 0 | |
| | | | 66,489 | | 59,403 | |
| Total Northside CSR Grant | | | 55,129 | | 59,403 | |
| Community Service - Bureau of Voc. Rehab | | | | | | |
| | 84.126 | | 7,250 | | 7,250 | |
| Title II-D Technology | | | | | | |
| | 84.138 | TJS1 - 2005 | 24,039 | | 23,736 | |
| Title II-A | | | | | | |
| | 84.367 | TRS1 - 2004 | 7,047 | | 49,655 | |
| | | TRS1 - 2005 | 228,201 | | 227,949 | |
| Total Title II-A | | | 235,248 | | 277,604 | |
| Total U. S. Department of Education Passed through Ohio Department of Education | | | 3,464,192 | | 3,672,012 | |

ALLIANCE CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | CFDA Number | Grant Number | Federal Receipts | Non-Cash Receipts | Federal Disbursements | Non-Cash Disbursements |
|---|----------------|-----------------|---------------------|----------------------|--------------------------|---------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| Student Financial Assistance Center | | | | | | |
| Pell Grant | 84.063 | | 263,359 | | 263,359 | |
| Stafford Student Loan | 84.032 | | 12,164 | | 12,164 | |
| Total U.S. Dept of Education Student Financial Assistance Cluster | | | <u>275,523</u> | | <u>275,523</u> | |
| Total U.S. Department of Education | | | 3,739,715 | | 3,947,535 | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| Passed through Ohio Department of MRDD: | | | | | | |
| Medical Assistance Program - Community Alternative Funding System (CAFS) | 93.778 | FY 2005 | 92,077 | | 92,077 | |
| Medical Assistance Program - State Children's Health Insurance Program (SCHIP) | 93.767 | FY 2005 | 5,058 | | 5,058 | |
| Latchkey | 13.667 | | 6,789 | | 6,789 | |
| Total U.S. Dept. of Health and Human Services | | | <u>103,924</u> | | <u>103,924</u> | |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | | | |
| Federal Block Grant from City of Alliance | 14.218 | | 28,000 | | 28,000 | |
| Total U.S. Department of Housing and Urban Development | | | <u>28,000</u> | | <u>28,000</u> | |
| U. S. DEPARTMENT OF AGRICULTURE | | | | | | |
| Passed through Ohio Department of Education: | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution Program | 10.550 | FY05 | | \$ 147,994 | | \$ 147,994 |
| School Breakfast Program | 10.553 | 05PU - 2005 | 159,341 | | 159,341 | |
| National School Lunch Program | 10.555 | LLP4 - 2005 | 662,230 | | 662,230 | |
| National School Summer Feeding | 10.559 | | 48,120 | | 48,120 | |
| Total US Department of Agriculture - Nutrition Cluster | | | <u>869,691</u> | <u>147,994</u> | <u>869,691</u> | <u>147,994</u> |
| Total Federal Financial Assistance | | | <u>\$4,741,330</u> | <u>\$ 147,994</u> | <u>\$ 4,949,150</u> | <u>\$ 147,994</u> |

See accompanying notes to schedule of expenditures of federal awards.

ALLIANCE CITY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2005, the District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

ALLIANCE CITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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): Special Education Cluster – Title VI-B Title I EETT Technology Literacy Challenge | CFDA # 84.027, 84.173 CFDA # 84.010 CFDA # 84.318 |
| (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

NONE



**Auditor of State
Betty Montgomery**

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ALLIANCE CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2006**