

TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2005

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Education
Toronto City School District
300 Myers Street
Toronto, Ohio 43964

We have reviewed the *Report of Independent Accountants* of the Toronto City School District, prepared by Charles E. Harris & 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 Toronto City School District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

April 20, 2006

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TORONTO CITY SCHOOL DISTRICT
Audit Report
For the Year Ended June 30, 2005

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Toronto City School District
Toronto, Ohio

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

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

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

As disclosed in Note 20 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read in conjunction with this report in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Toronto City Local School District taken as a whole. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
April 7, 2006

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited**

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

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

In total, net assets decreased \$166,378.

General revenues accounted for \$5,679,091, or 81 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,364,264, or 19 percent of total revenues of \$7,043,355.

The District's major fund is the General Fund. The General Fund had \$5,653,862 in revenues and \$5,956,855 in expenditures and other financing uses. The General Fund's balance decreased \$302,993 from the prior fiscal year.

Using the Basic Financial Statements

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

The District as a Whole

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

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$5,635,990	\$5,943,410
Capital Assets, Net	1,844,162	2,024,262
Total Assets	<u>7,480,152</u>	<u>7,967,672</u>
<u>Liabilities:</u>		
Current and Other Liabilities	2,650,524	2,939,027
Long-Term Liabilities	418,181	450,820
Total Liabilities	<u>3,068,705</u>	<u>3,389,847</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,844,162	2,024,262
Restricted	129,467	200,910
Unrestricted	<u>2,437,818</u>	<u>2,352,653</u>
Total	<u>\$4,411,447</u>	<u>\$4,577,825</u>

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004. The decrease in current capital assets and current liabilities was due to the decrease in taxes receivable and deferred revenue.

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$215,970	\$250,575
Operating Grants, Contributions and Interest	1,148,294	988,028
Capital Grants and Contributions		21,725
Total Program Revenues	<u>1,364,264</u>	<u>1,260,328</u>
General Revenues:		
Property Taxes	2,133,853	1,888,748
Grants and Entitlements	3,398,129	3,633,578
Gifts and Donations	16,600	2,891
Interest	62,045	69,026
Miscellaneous	68,464	29,363
Total General Revenues	<u>5,679,091</u>	<u>5,623,606</u>
Total Revenues	<u>7,043,355</u>	<u>6,883,934</u>

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

<u>Expenses:</u>		
Instruction	\$3,650,311	\$3,911,670
Support Services:		
Pupils	278,864	237,493
Instructional Staff	276,353	358,974
Board of Education	8,482	6,733
Administration	847,151	920,814
Fiscal	255,626	267,272
Business	32,483	32,335
Operation and Maintenance of Plant	953,768	839,875
Pupil Transportation	258,676	221,301
Central		641
Non-Instructional	410,879	333,210
Extracurricular Activities	237,140	244,020
Total Expenses	<u>7,209,733</u>	<u>7,374,338</u>
Increase in Net Assets	<u>(\$166,378)</u>	<u>(\$490,404)</u>

The District had an increase in property tax revenue. Decreases in instruction, instruction staff, and administration attributed to the decrease in expenses.

Governmental Activities

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$3,650,311	\$2,707,161	\$3,911,670	\$2,912,108
Support Services:				
Pupils	278,864	272,002	237,493	229,903
Instructional Staff	276,353	269,391	358,974	348,904
Board of Education	8,482	8,482	6,733	6,733
Administration	847,151	835,151	920,814	920,814
Fiscal	255,626	255,626	267,272	267,272
Business	32,483	(2,987)	32,335	32,335
Operation and Maintenance of Plant	953,768	953,768	839,875	839,875
Pupil Transportation	258,676	258,676	221,301	221,301
Central			641	641
Non-Instructional	410,879	146,438	333,210	240,232
Extracurricular Activities	237,140	141,761	244,020	93,892
Total Expenses	<u>\$7,209,733</u>	<u>\$5,845,469</u>	<u>\$7,374,338</u>	<u>\$6,114,010</u>

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 74 percent of instruction activities is supported through taxes and other general revenues. For all governmental activities, support from general revenues is 81 percent. The remaining 19 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues of \$7,103,723 and expenditures of \$7,451,720. The net negative change of \$347,997 in fund balance for the year indicates that the District had difficulty meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$7,332,800 while actual expenditures were \$6,414,349. The \$918,451 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$1,844,162 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the note 7 to the basic financial statements.

Debt

At June 30, 2005, the District had no debt.

At June 30, 2005, the District's overall legal debt margin was \$7,477,601, with an un-voted debt margin of \$83,084.

For further information regarding the District's debt, see the note 12 to the basic financial statements.

Current Issues

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

The District is currently operating in the first year of the state biennium budget. 46 percent of District revenue sources is from local funds, 45 percent is from state funds, and the remaining 9 percent is from federal funds. The total expenditure per pupil was calculated at \$7,804.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Over the past several years, the District has remained in a good financial position. In May 1999, the District passed a 5 mill five-year operating levy. The last collection on that levy will occur in calendar year 2005. A replacement levy was approved on the November 2, 2004 ballot for replacement and will generate \$415,422 annually. This levy provides a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

Contacting the District's Financial Management

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Net Assets
June 30, 2005**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	423,386
Investments		2,597,500
Materials and Supplies Inventory		7,696
Accrued Interest Receivable		38,158
Intergovernmental Receivable		95,121
Prepaid Items		18,316
Taxes Receivable		2,455,813
Capital Assets:		
Non-Depreciable Capital Assets		215,638
Depreciable Capital Assets, net		1,628,524
Total Assets		<u>7,480,152</u>
 LIABILITIES:		
Accounts Payable		12,613
Accrued Wages and Benefits		583,989
Intergovernmental Payable		158,231
Matured Compensated Absences Payable		77,797
Deferred Revenue		1,750,308
Claims Payable		67,586
Long-Term Liabilities:		
Due Within One Year		41,818
Due in More Than One Year		376,363
Total Liabilities		<u>3,068,705</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,844,162
Restricted for Debt Service		122,667
Restricted for Other Purposes		6,800
Unrestricted		2,437,818
Total Net Assets	\$	<u><u>4,411,447</u></u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

		Program Revenues		Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 2,746,652	\$ 9,290	\$ 484,573	\$ (2,252,789)
Special	766,609	0	449,287	(317,322)
Vocational	115,223	0	0	(115,223)
Other	21,827	0	0	(21,827)
Support Services:				
Pupils	278,864	0	6,862	(272,002)
Instructional Staff	276,353	0	6,962	(269,391)
Board of Education	8,482	0	0	(8,482)
Administration	847,151	0	12,000	(835,151)
Fiscal	255,626	0	0	(255,626)
Business	32,483	35,470	0	2,987
Operation and Maintenance of Plant	953,768	0	0	(953,768)
Pupil Transportation	258,676	0	0	(258,676)
Operation of Non-Instructional Services	410,879	75,831	188,610	(146,438)
Extracurricular Activities	237,140	95,379	0	(141,761)
Totals	\$ 7,209,733	\$ 215,970	\$ 1,148,294	(5,845,469)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,133,853
Grants and Entitlements not Restricted to Specific Programs				3,398,129
Gifts and Donations				16,600
Investment Earnings				62,045
Miscellaneous				68,464
Total General Revenues				5,679,091
Change in Net Assets				(166,378)
Net Assets Beginning of Year				4,577,825
Net Assets End of Year				\$ 4,411,447

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 182,223	\$ 219,740	\$ 401,963
Investments	2,475,000	122,500	2,597,500
Materials and Supplies Inventory	0	7,696	7,696
Accrued Interest Receivable	38,001	157	38,158
Interfund Receivable	199,048	0	199,048
Intergovernmental Receivable	0	95,121	95,121
Prepaid Items	18,316	0	18,316
Taxes Receivable	2,455,813	0	2,455,813
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	10,573	0	10,573
Total Assets	\$ <u>5,378,974</u>	\$ <u>445,214</u>	\$ <u>5,824,188</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 5,491	\$ 7,122	\$ 12,613
Accrued Wages and Benefits	480,617	103,372	583,989
Interfund Payable	0	24,089	24,089
Intergovernmental Payable	81,894	14,973	96,867
Matured Compensated Absences Payable	33,251	44,546	77,797
Deferred Revenue	1,922,833	843	1,923,676
Total Liabilities	<u>2,524,086</u>	<u>194,945</u>	<u>2,719,031</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	192,342	23,684	216,026
Reserved for Prepaid Items	18,316	0	18,316
Reserved for Property Taxes	164,001	0	164,001
Reserved for Capital Improvements	10,573	0	10,573
Unreserved, Undesignated, Reported in:			
General Fund	2,469,656	0	2,469,656
Special Revenue Funds	0	103,918	103,918
Debt Service Funds	0	122,667	122,667
Total Fund Balances	<u>2,854,888</u>	<u>250,269</u>	<u>3,105,157</u>
Total Liabilities and Fund Balances	\$ <u>5,378,974</u>	\$ <u>445,214</u>	\$ <u>5,824,188</u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances	\$	3,105,157
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		1,844,162
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		173,368
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(61,364)
Internal Service Fund		(231,695)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Compensated Absences Payable	(418,181)	(418,181)
Net Assets of Governmental Activities	\$	4,411,447

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Property and Other Local Taxes	\$ 2,131,982	\$ 0	\$ 2,131,982
Intergovernmental	3,398,129	1,160,533	4,558,662
Interest	61,048	997	62,045
Tuition and Fees	9,290	7,685	16,975
Extracurricular Activities	0	130,849	130,849
Gifts and Donations	0	16,600	16,600
Customer Sales and Services	0	68,146	68,146
Miscellaneous	53,413	15,051	68,464
Total Revenues	<u>5,653,862</u>	<u>1,399,861</u>	<u>7,053,723</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	2,429,715	384,750	2,814,465
Special	495,476	295,713	791,189
Vocational	121,047	0	121,047
Other	21,827	0	21,827
Support Services:			
Pupils	243,107	41,716	284,823
Instructional Staff	178,159	111,958	290,117
Board of Education	8,397	0	8,397
Administration	799,598	108,363	907,961
Fiscal	268,631	0	268,631
Business	0	32,483	32,483
Operation and Maintenance of Plant	979,994	259	980,253
Pupil Transportation	222,608	6,071	228,679
Operation of Non-Instructional Services	8	411,414	411,422
Extracurricular Activities	138,288	102,138	240,426
Total Expenditures	<u>5,906,855</u>	<u>1,494,865</u>	<u>7,401,720</u>
Excess of Revenues Over (Under) Expenditures	<u>(252,993)</u>	<u>(95,004)</u>	<u>(347,997)</u>
OTHER FINANCING SOURCES AND USES:			
Transfers In	0	50,000	50,000
Transfers Out	(50,000)	0	(50,000)
Total Other Financing Sources and Uses	<u>(50,000)</u>	<u>50,000</u>	<u>0</u>
Net Change in Fund Balances	(302,993)	(45,004)	(347,997)
Fund Balance (Deficit) at Beginning of Year	3,157,881	295,273	3,453,154
Fund Balance (Deficit) at End of Year	<u>\$ 2,854,888</u>	<u>\$ 250,269</u>	<u>\$ 3,105,157</u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ (347,997)

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

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

Capital Outlay - Depreciable Capital Assets	21,016	
Depreciation	<u>(201,116)</u>	
		(180,100)

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

Intergovernmental	(12,239)	
Delinquent Property Taxes	<u>1,871</u>	
		(10,368)

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

Internal service fund is not included in governmental fund financial statements. 336,068

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

Intergovernmental Payable	3,380	
Compensated Absences Payable	<u>32,639</u>	
		<u>36,019</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(166,378)</u></u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive/(Negative)</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,249,765	\$ 2,134,720	\$ 2,134,723	\$ 3
Intergovernmental	3,561,580	3,339,569	3,398,129	58,560
Interest	52,500	52,500	51,903	(597)
Tuition and Fees	10,000	10,000	9,349	(651)
Miscellaneous	0	0	9	9
Total Revenues	<u>5,873,845</u>	<u>5,536,789</u>	<u>5,594,113</u>	<u>57,324</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,731,273	2,731,273	2,501,571	229,702
Special	468,780	468,780	485,791	(17,011)
Vocational	138,538	138,538	122,885	15,653
Other	48,000	48,000	25,827	22,173
Support Services:				
Pupils	305,940	305,940	296,827	9,113
Instructional Staff	206,419	206,419	192,487	13,932
Board of Education	9,770	9,770	8,378	1,392
Administration	1,026,289	1,026,289	869,440	156,849
Fiscal	297,865	297,865	265,397	32,468
Operation and Maintenance of Plant	1,086,852	1,086,852	1,002,269	84,583
Pupil Transportation	296,614	296,614	236,976	59,638
Extracurricular Activities	137,937	137,937	138,502	(565)
Total Expenditures	<u>6,754,277</u>	<u>6,754,277</u>	<u>6,146,350</u>	<u>607,927</u>
Excess of Revenues Over (Under) Expenditures	<u>(880,432)</u>	<u>(1,217,488)</u>	<u>(552,237)</u>	<u>665,251</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures	2,243	54,000	55,647	1,647
Advances In	364,547	364,547	364,547	0
Transfers Out	(50,000)	(50,000)	(50,000)	0
Refund of Prior Year Receipts	(253)	(253)	(18,951)	(18,698)
Advances Out	(528,000)	(528,000)	(199,048)	328,952
Total Other Financing Sources and Uses	<u>(211,463)</u>	<u>(159,706)</u>	<u>152,195</u>	<u>311,901</u>
Net Change in Fund Balances	(1,091,895)	(1,377,194)	(400,042)	977,152
Fund Balance (Deficit) at Beginning of Year	2,647,488	2,647,488	2,647,488	0
Prior Year Encumbrances Appropriated	222,517	222,517	222,517	0
Fund Balance (Deficit) at End of Year	<u>\$ 1,778,110</u>	<u>\$ 1,492,811</u>	<u>\$ 2,469,963</u>	<u>\$ 977,152</u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Fund Net Assets
Proprietary Fund
June 30, 2005**

**Governemental
Activities -
Internal Service**

ASSETS:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 10,850
Total Current Assets	<u>10,850</u>

Total Assets	<u><u>10,850</u></u>
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LIABILITIES:

Current Liabilities:

Interfund Payable	174,959
Claims Payable	<u>67,586</u>
Total Current Liabilities	<u>242,545</u>

Total Liabilities	<u><u>242,545</u></u>
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NET ASSETS:

Unrestricted	<u>(231,695)</u>
Total Net Assets	<u><u>\$ (231,695)</u></u>

See Accompanying Notes to Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005**

OPERATING REVENUES:

Charges for Services	\$ 871,257
Total Operating Revenues	<u>871,257</u>

OPERATING EXPENSES:

Purchased Services	107,038
Claims	<u>428,151</u>
Total Operating Expenses	<u>535,189</u>
Net Change in Net Assets	336,068

Net Assets (Deficit) at Beginning of Year	<u>(567,763)</u>
Net Assets (Deficit) at End of Year	<u>\$ (231,695)</u>

See Accompanying Notes to Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005**

	Governmental Activities - Internal Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$ 871,257
Cash Payments for Purchased Services	(107,038)
Cash Payments for Claims	(579,512)
Net Cash Used by Operating Activities	184,707
Cash Flows from Noncapital Financing Activities	
Advances In	174,959
Advances Out	(364,547)
Net Cash Provided by (Used for) Noncapital Financing Activities	(189,588)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,881)
Cash and Cash Equivalents at Beginning of Year	15,731
Cash and Cash Equivalents at End of Year	\$ 10,850
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ 336,068
Adjustments	
Increase (Decrease) in Liabilities:	
Claims Payable	(151,361)
Net Cash Used by Operating Activities	\$ 184,707

See Accompanying Notes to Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 1,852	\$ 22,929
Investments	<u>21,984</u>	<u>0</u>
Total Assets	<u>23,836</u>	<u>22,929</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u>0</u>	<u>22,929</u>
Total Liabilities	<u>0</u>	<u>22,929</u>
Net Assets		
Held in Trust for Scholarships	<u>23,836</u>	<u>0</u>
Total Net Assets	<u>\$ 23,836</u>	<u>\$ 0</u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ 150
Miscellaneous	650
Total Additions	<u>800</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>1,044</u>
Total Deductions	<u>1,044</u>
Change in Net Assets	(244)
Net Assets Beginning of Year	<u>24,080</u>
Net Assets End of Year	<u>\$ 23,836</u>

See Accompanying Notes to the Basic Financial Statements

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Toronto City School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Toronto City School District is a city school district as defined by §3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 42 non-certified and 78 certified full-time teaching personnel who provide services to 984 students and other community members.

The Reporting Entity

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

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

The District is associated with four organizations, which are defined as a joint venture, a jointly governed organization, and insurance purchasing pools. These organizations include the Ohio Mid-Eastern Regional Education Service Agency, the Jefferson County Career Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio Mid-Eastern Regional Education Service Agency Health Benefits Plan. These organizations are presented in Notes 14 and 15 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Proprietary Funds

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 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 been reported as deferred revenue.

Expenditures/Expenses

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

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$26,848 and \$997 to other District funds.

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

G. Inventory

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

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

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for the acquisition or construction of capital assets.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is two thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

J. Interfund Balances

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

O. Interfund Assets/Liabilities

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

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

P. Estimates

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

Q. Extraordinary and Special Items

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

3. BUDGETARY BASIS OF ACCOUNTING

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

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

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$302,993)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	566,879
Accrued FY 2005, Not Yet Received in Cash	(645,579)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(643,549)
Accrued FY 2005, Not Yet Paid in Cash	657,535
Advances Net	165,499
Encumbrances Outstanding at Year End (Budget Basis)	(197,834)
Budget Basis	(\$400,042)

4. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

At June 30, 2005, the District's internal service fund had a balance of (\$174,959) with OME-RESA, a claims servicing pool (See Note 8). The balance is held by the claims administrator in a pooled account which is representative of numerous entities and therefore cannot be included in the risk disclosures reported by the District. Disclosures for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, Jefferson County ESC, Steubenville, Ohio 43695.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,663,653 of the District's bank balance of \$2,763,653 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the District had \$691,009 invested in a repurchase agreement.

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

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(Continued)**

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 \$61,048, which includes \$9,245 assigned from other funds.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer.

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Jefferson County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 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 represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were 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, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

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The amount available as an advance at June 30, 2005, was \$164,001 in the General Fund.

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
Agricultural/Residential	\$44,992,060	52%	\$45,195,860	54%
Industrial/Commercial	8,746,870	10%	8,880,820	11%
Public Utility	3,518,410	4%	3,574,840	4%
Tangible Personal	29,153,999	34%	25,432,940	31%
Total Assessed Value	<u>\$86,411,339</u>	<u>100%</u>	<u>\$83,084,460</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$37.65		\$37.65	

6. RECEIVABLES

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

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$11,218
Title VI-B	50,573
Title I	23,895
Title VI	3,252
Preschool Handicapped	256
Title II-A	5,927
Total Intergovernmental Receivables	<u>\$95,121</u>

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(Continued)**

7. CAPITAL ASSETS

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Non-Depreciable Capital Assets				
Land	\$215,638			\$215,638
Total Non-Depreciable Capital Assets	<u>215,638</u>			<u>215,638</u>
Depreciable Capital Assets				
Land Improvements	913,281			913,281
Buildings and Building Improvements	5,197,951			5,197,951
Furniture, Fixtures, and Equipment	476,196	\$21,016		497,212
Vehicles	515,951			515,951
Books	233,584			233,584
Total Depreciable Capital Assets	<u>7,336,963</u>	<u>21,016</u>		<u>7,357,979</u>
Less Accumulated Depreciation				
Land Improvements	626,708	19,067		645,775
Buildings and Building Improvements	3,927,447	101,951		4,029,398
Furniture, Fixtures, and Equipment	378,642	42,568		421,210
Vehicles	361,958	37,530		399,488
Books	233,584			233,584
Total Accumulated Depreciation	<u>5,528,339</u>	<u>201,116</u>		<u>5,729,455</u>
Depreciable Capital Assets, Net	<u>1,808,624</u>	<u>(180,100)</u>		<u>1,628,524</u>
Governmental Activities Capital Assets, Net	<u>\$2,024,262</u>	<u>(\$180,100)</u>		<u>\$1,844,162</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$120,802
Special	2,492
Vocational	624
Support Services:	
Pupil	3,129
Administration	20,350
Operation and Maintenance of Plant	8,828
Pupil Transportation	35,324
Non-Instructional Services	1,177
Extracurricular	8,390
Total Depreciation Expense	<u>\$201,116</u>

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(Continued)**

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Insurance Carrier</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents	Indiana Insurance Company	\$5,000	\$26,505,085
Boiler and Machinery	Travelers Property Casualty	1,000	5,000,000
Automobile Liability	Indiana Insurance Company		1,000,000
Comprehensive		100	
Collision		250	
Uninsured Motorists	Indiana Insurance Company	250	1,000,000
Inland Marine	Indiana Insurance Company	500	329,262
General Liability	Marsh USA		
Per occurrence		0	2,000,000
Aggregate		0	4,000,000
Excess Liability (Umbrella)	Marsh USA		
Per occurrence		0	1,000,000
Aggregate		0	1,000,000
Abuse or Molestation Liability	Marsh USA		
Per occurrence			1,000,000
Aggregate			1,000,000

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

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan, a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$67,586 reported in the Internal Service Fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

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(Continued)**

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2004	\$362,010	\$514,034	\$813,325	\$62,719
2005	\$62,719	\$672,861	\$667,994	\$67,586

9. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$182,571, \$198,133, and \$193,302, respectively, 62 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contributions for fiscal year 2005 are \$70,020.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$503,396, \$496,251, and \$471,672, respectively, 85 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$73,528. Contributions to the DC and Combined plans for fiscal year 2005 were \$4,919 made by the District and \$11,061 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all members of the Board of Education have elected SERS.

10. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium. The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

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(Continued)**

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

For the District the amount to fund post employment benefits including surcharge as of June 30, 2005 equaled \$68,241.

11. COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for certified personnel and 265 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for certified employees and 57 days for classified employees.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

12. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated Absences	\$450,820	\$22,472	\$55,111	\$418,181	\$41,818
Total	<u>\$450,820</u>	<u>\$22,472</u>	<u>\$55,111</u>	<u>\$418,181</u>	<u>\$41,818</u>

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

The District's voted legal debt margin was \$7,477,601 with an unvoted debt margin of \$83,084 at June 30, 2005.

13. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2005, only the unspent portion of certain workers' compensation refunds is required to be set-aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2004	(\$67,270)	\$37,135	(\$30,135)
Current Year Set-aside Requirement	137,643	137,643	275,286
Qualifying Disbursements	(124,043)	(164,205)	(288,248)
Total	<u>(\$53,670)</u>	<u>\$10,573</u>	<u>(\$43,097)</u>
Set-aside Balance Carried Forward to FY 2006	<u>(\$53,670)</u>	<u>\$10,573</u>	<u>(\$43,097)</u>

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

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(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS

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

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

B. Jefferson County Career Center

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

15. GROUP PURCHASING POOLS

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

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

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

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(Continued)**

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

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

16. SCHOOL FUNDING DECISION

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

17. INTERFUND BALANCES

As of June 30, 2005, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$199,048	
Special Revenue Funds		\$24,089
Internal Service Fund		174,959
Totals	\$199,048	\$199,048

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

18. INTERFUND TRANSFERS

During the year ended June 30, 2005, the District transferred \$50,000 from the General Fund to a Non-major Governmental Fund. This transfer was made to eliminate a deficit cash balance.

19. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

B. Litigation

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

20. CHANGE IN ACCOUNTING PRINCIPLES

The District has elected to implement Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. Also, the District has implemented GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. Implementation of these Statements had no impact on the District's financial position or results of operations.

TORONTO CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For The Year Ended June 30, 2005

Federal Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts Recognized	Program Expenditures
<i>U.S. Department of Education:</i>				
<i>Passed through the Ohio Department of Education.</i>				
Title I - Educationally Deprived Children - 2004	044917-C1S1-2004	84.010	\$ 26,701	\$ 36,163
Title I - Educationally Deprived Children - 2005	044917-C1S1-2005	84.010	219,833	204,344
Total Title I			246,534	240,507
Special Education Cluster:				
Early Childhood Special Ed.-IDEA	044917-PGS1-2004	84.173	-	77
Early Childhood Special Ed.-IDEA	044917-PGS1-2005	84.173	6,706	6,207
Title VI-B Special Ed. Part B-IDEA	044917-6BSF-2004	84.027	-	21,604
Title VI-B Special Ed. Part B-IDEA	044917-6BSF-2005	84.027	164,482	151,136
Total Special Education Cluster			171,188	179,024
Safe and Drug Free 2005	044917-DRS1-2005	84.186	6,862	6,862
Total Safe and Drug-Free Schools			6,862	6,862
Title V - Innovative Education Program	044917-C2S1-2004	84.298	-	396
Title V - Innovative Education Program	044917-C2S1-2005	84.298	4,940	5,874
Total Title V - Innovative Education			4,940	6,270
Title II-D Technology 2004	044917-TJS1-2004	84.318	-	120
Title II-D Technology 2005	044917-TJS1-2005	84.318	6,227	6,013
Total Title II-D Technology			6,227	6,133
Title II-A Improving Teacher Quality State Grant 2004	044917-TRS1-2004	84.367	-	4,958
Title II-A Improving Teacher Quality State Grant 2005	044917-TRS1-2005	84.367	48,777	49,777
Total Title II-A Improving Teacher Quality State Grant			48,777	54,735
Total U. S. Department of Education			\$ 484,528	\$ 493,531
<i>U.S. Department of Health and Human Services:</i>				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Community Alternative Funding System	FY 2005	93.778	\$ 43,344	\$ 43,344
State Children's Health Insurance Program	FY 2005	93.767	7,286	7,286
Total U.S. Department of Health and Human Services			\$ 50,630	\$ 50,630
<i>U.S. Department of Agriculture:</i>				
<i>Passed through Ohio Department of Education.</i>				
Nutrition Cluster:				
Federal Donated Commodities	FY 2005	10.550	\$ 27,590	\$ 27,590
National School Lunch Program	044917-05PU-2005	10.555	160,487	160,487
School Breakfast Program-Special Milk Reimbursement	044917-02PU-2005	10.556	1,696	1,696
Total Nutrition Cluster			189,773	189,773
Total U.S. Department of Agriculture			189,773	189,773
TOTAL FEDERAL FINANCIAL ASSISTANCE PROGRAMS			\$ 724,931	\$ 733,934

See notes to the Schedule of Federal Awards Expenditures.

Toronto City School District
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than the obligation is incurred.

2. Food Distribution

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had food commodities in inventory recorded in the Food Service Fund.

3. Matching Requirements

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on this schedule.

**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**

Board of Education
Toronto City School District
Toronto, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Toronto City School District, Jefferson County, Ohio, (the District), as and for the year ended June 30, 2005, and have issued our report thereon dated April 7, 2006, wherein we noted the District implemented GASB Technical Bulletin No. 2004-2 and GASB Statement No. 40. 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 controls over financial reporting that we have reported to management in a separate letter dated April 7, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 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 and pass-through entities and the District Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
April 7, 2006

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

Board of Education
Toronto City School District
Toronto, Ohio

Compliance

We have audited the compliance of the Toronto City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program cluster for the year ended June 30, 2005. The District's major federal program cluster is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program cluster is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program cluster for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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 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 these specified parties.

Charles E. Harris & Associates, Inc.

April 7, 2006

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY
June 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Special Education Cluster: Title VI-B CFDA #84.027 Early Childhood CFDA #84.173 Title I CFDA #84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

TORONTO CITY SCHOOL DISTRICT
JEFFERSON COUNTY
June 30, 2005

**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.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2004, reported no material citations or recommendations.



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Betty Montgomery**

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TORONTO CITY SCHOOL DISTRICT

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**