



**Auditor of State
Betty Montgomery**

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 20, 2005

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

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

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2004 are as follows:

- Total net assets increased \$64.3 million. This is a 75.7 percent increase from fiscal year 2003.
- Total revenues increased to \$398.7 million from \$320.8 million. This is an increase of \$77.9 million or 24.3 percent.
- Total program expenses were \$334.4 million. Total program expenses increased from \$307.6 million from fiscal year 2003. This is an increase of \$26.8 million or 8.7 percent. A \$16.0 million increase in instructional expenses reflects most of this change.
- The fund balance in the general fund decreased \$10.3 million. This is a 32.3 percent decrease from fiscal year 2003.

Using this Annual Report

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, the fund financial statements tell how services were financed in the short-term and what remains for future spending. Also, the fund financial statements look at the School District's most significant funds with all other nonmajor funds presented in total in one column. The School District has three major funds. They are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

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

Reporting the School District as a Whole – Statement of Net Assets and Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2004?” The Statement of Net Assets and the Statement of Activities answer this question. These two statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the activities of the School District’s programs and services are accounted for as governmental activities. Thus, all of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service operations.

Reporting the School District’s Most Significant Funds – Fund Financial Statements

The analysis of the School District’s major funds begins on page 10. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

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

The School District as a Whole

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

Table 1 provides a summary of the School District’s net assets for fiscal year 2004 compared to fiscal year 2003 as follows:

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

Table 1
 Net Assets at June 30,
 (In Millions)

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$412.0	\$166.7
Capital Assets, Net	54.4	55.4
<i>Total Assets</i>	<u>466.4</u>	<u>222.1</u>
Liabilities		
Current and Other Liabilities	288.5	110.3
Long-Term Liabilities		
Due Within One Year	3.0	3.1
Due in More than One Year	25.6	23.7
<i>Total Liabilities</i>	<u>317.1</u>	<u>137.1</u>
Net Assets		
Invested in Capital Assets, Net of Debt	53.6	54.4
Restricted:		
Capital Projects	86.5	5.8
Debt Service	0.1	0.1
Set Asides	0.0	0.5
Other Purposes	7.7	7.6
Unrestricted	1.4	16.6
<i>Total Net Assets</i>	<u>\$149.3</u>	<u>\$85.0</u>

Total assets increased \$244.3 million.

Akron City School District
Management's Discussion and Analysis
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Unaudited

Cash and cash equivalents and investments increased \$73.8 million. This increase is mainly due to the Ohio Schools Facilities Commission ("OSFC") construction project. Because of this project, the School District had \$85.1 million in new cash and cash equivalents and investments as of June 30, 2004. Voters in the City of Akron ("the City") passed an ordinance in May of 2003 levying a 0.25 percent additional municipal income tax for the purpose of acquiring, constructing, renovating and adding interests in land and the School District's school buildings. This tax will last for 30 years and will raise \$284.2 million in local funds needed to be eligible for \$409.0 million of OSFC monies. Also, this tax will raise \$80.7 million in additional local funds for locally funded initiatives that are not eligible to be paid for with OSFC monies. Combined, these funds will rebuild and renovate all of the School District's school buildings into community learning centers for educating students during school hours while serving as community learning centers for recreation, education, after school and summer school programs, as well as community activities at other times, open to City residents and persons employed in the City. The tax took effect January 1, 2004. The School District received \$85.9 million in local funds from the City by way of this tax during fiscal year 2004.

The \$85.1 million in cash and cash equivalents and investments involving the OSFC construction project is offset by decreases in other cash and cash equivalents and investments of \$9.3 million. These decreases are due to expenses exceeding revenues for fiscal year 2004. Expenses exceeded revenues because of the following factors: a decrease in property taxes revenue from fiscal year 2004 to fiscal year 2003, a decline in the assessed value of real estate and tangible personal property in the City as a whole, a general increase in wages and salaries, an increase in health insurance expenses, an increase in expenses associated with community schools and contributing \$3.0 million to the City during fiscal year 2004 involving the securities issued by the City for the OSFC construction project which will be discussed in greater detail later.

Also, intergovernmental receivable increased \$84.2 million. The increase in intergovernmental receivable is attributed to a new OSFC receivable of \$83.4 million at June 30, 2004. The State has currently appropriated \$83.4 million to be paid to the School District as segment one funds for the OSFC construction project, and as of June 30, 2004, the School District has not received any of these funds.

In addition, deferred expense of \$87.0 million was recorded in fiscal year 2004 that was not recorded in the prior fiscal year. In accordance with an agreement between the School District and the City, the City issued securities to assist in the School District's funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District's school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3.0 million each year to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2004 are recorded as deferred expense. The School District contributed \$3.0 million to the City during fiscal year 2004 concerning these securities.

Total liabilities increased \$180.0 million.

Intergovernmental payable increased \$87.8 million. This increase is due to the \$87.0 million deferred expense that was recorded for the first time in fiscal year 2004 in connection with the OSFC construction project as previously discussed. The deferred expense of \$87.0 million is offset with a corresponding intergovernmental payable.

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A liability, "due to City of Akron", was recorded in the amount of \$85.5 million as of June 30, 2004 for the first time. The amount of this liability was determined by reducing the \$85.9 million the School District received from the City in fiscal year 2004 by the amount of capital expenditures made by the School District during fiscal year 2004 involving this construction project. The School District made \$0.4 million in capital expenditures in fiscal year 2004 involving this project. A liability was recorded for these monies because if the School District does not spend these local funds by the end of this project, these funds would have to be returned to the City in accordance with an agreement between the School District and the City.

The net impact of the assets increase and the liabilities increase was an increase of net assets of \$64.3 million.

Recall that the Statement of Activities also provides the viewpoint of the School District as a whole.

Table 2 shows the changes in net assets for fiscal years 2004 and 2003 for governmental activities as follows:

Table 2
Change in Net Assets for Governmental Activities
(In Millions)

	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$8.2	\$6.9
Operating Grants, Contributions and Interest	62.5	61.9
Capital Grants and Contributions	84.3	0.9
Total Program Revenues	155.0	69.7
<i>General Revenues:</i>		
Property Taxes	96.9	109.6
Grants and Entitlements	141.7	136.0
Investment Earnings	0.5	0.8
Miscellaneous	4.6	4.7
Total General Revenues	243.7	251.1
Total Revenues	398.7	320.8

Akron City School District
Management's Discussion and Analysis
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Program Expenses		
Instruction	196.8	180.8
Support Services:		
Pupil and Instructional Staff	41.2	37.3
Board of Education, Administration, Fiscal and Business	31.2	27.1
Operation and Maintenance of Plant	31.0	31.7
Pupil Transportation	9.1	7.0
Central	6.7	6.3
Operation of Non-Instructional Services	3.4	3.7
Extracurricular Activities	3.7	3.6
Food Service Operations	11.2	10.0
Interest and Fiscal Charges	<u>0.1</u>	<u>0.1</u>
Total Program Expenses	<u>334.4</u>	<u>307.6</u>
 Increase in Net Assets	 <u>\$64.3</u>	 <u>\$13.2</u>

While program revenues increased for governmental activities from \$69.7 million to \$155.0 million, the vast majority of revenues supporting governmental activities are general revenues. General revenues decreased from \$251.1 million in fiscal year 2003 to \$243.7 million in fiscal year 2004. General revenues comprised 61.1 percent of revenues supporting governmental activities. The primary source of the decrease in general revenues was a decrease in property taxes revenue in the amount of \$12.7 million. This decrease is due to a decline in the assessed value of real estate and tangible personal property in the City as a whole as previously discussed. The decrease in property taxes is offset by an increase in grants and entitlements in the amount of \$5.7 million. The majority of the increase in grants and entitlements is attributed to an increase in parity aid from the State of \$3.1 million. The large increase in program revenues is due to recognizing \$83.4 million of revenue for the OSFC construction project, as previously discussed, regarding segment one of the project.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 24.3 percent of total revenues for governmental activities for the Akron City School District in fiscal year 2004.

Akron City School District
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Unaudited

Program expenses increased from \$307.6 million in fiscal year 2003 to \$334.4 million, an 8.7 percent increase. Much of this increase resulted from a general increase in wages and salaries, an increase in health insurance expenses, and an increase in expenses associated with community schools as previously discussed. This also accounts for most of the increase in instructional expenses, which had the largest increase (\$16.0 million) and the largest amount of expenses, comprising 58.9 percent of expenses. When combined with pupil and instructional staff support services, these categories make up 71.2 percent of expenses.

While expense increases were consistent with budget expectations, the increase in program revenues, the decrease in tax revenues and the increase in unrestricted State entitlements resulted in a rise of net assets of \$64.3 million.

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

Table 3
(In Millions)

	<u>2004</u>		<u>2003</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Program Expenses				
Instruction	\$196.8	\$154.5	\$180.8	\$142.2
Support Services:				
Pupil and Instructional Staff	41.2	30.6	37.3	24.9
Board of Education, Administration, Fiscal and Business	31.2	29.3	27.1	25.4
Operation and Maintenance of Plant	31.0	(54.0)	31.7	29.5
Pupil Transportation	9.1	8.6	7.0	6.6
Central	6.7	5.6	6.3	5.4
Operation of Non-Instructional Services	3.4	0.4	3.7	0.7
Extracurricular Activities	3.7	2.8	3.6	2.5
Food Service Operations	11.2	1.5	10.0	0.6
Interest and Fiscal Charges	0.1	0.1	0.1	0.1
Total	<u>\$334.4</u>	<u>\$179.4</u>	<u>\$307.6</u>	<u>\$237.9</u>

The dependence upon general revenues for governmental activities is apparent. Over 53.6 percent of governmental activities are supported through taxes and other general revenues; such revenues are 61.1 percent of total governmental revenues. The community, as a whole, is by far the primary support for the Akron City School District students.

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

The School District's Funds

Information about the School District's major funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$315.4 million and expenditures of \$329.7 million. The net change in fund balances for the fiscal year was a decrease of \$14.3 million for all governmental funds with the most significant decrease in the general fund. The general fund's net change in fund balance for fiscal year 2004 was a decrease of \$10.3 million. This played a significant part in causing the unreserved fund balance in the general fund to decrease from \$23.7 million in fiscal year 2003 to \$17.7 million in fiscal year 2004. General fund tax revenues decreased \$11.2 million or 10.8 percent from fiscal year 2003 to fiscal year 2004. This is due to a decline in the assessed value of real estate and tangible personal property in the City as a whole as previously discussed. Also, general fund expenditures increased \$17.2 million or 7.3 percent from fiscal year 2003 to fiscal year 2004. As previously discussed, this is attributed to a general increase in wages and salaries, an increase in health insurance costs, and an increase in expenditures associated with community schools.

The permanent improvement capital projects fund's net change in fund balance for fiscal year 2004 was a decrease of \$2.0 million. This played a significant part in causing the unreserved fund balance in the permanent improvement capital projects fund to decrease from \$3.4 million in fiscal year 2003 to \$2.0 million in fiscal year 2004. Tax revenues decreased \$0.5 million or 11.3 percent from fiscal year 2003 to fiscal year 2004. This is due to a decline in the assessed value of real estate and tangible personal property in the City as a whole as previously discussed. In addition, expenditures increased \$1.7 million or 33.6 percent from fiscal year 2003 to fiscal year 2004. This is attributed to the School District contributing \$3.0 million to the City during fiscal year 2004 involving the securities issued by the City for the OSFC construction project as previously discussed.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its general fund budget numerous times; however, none of these amendments were significant. The School District uses a modified site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$250.6 million, \$4.5 million above actual revenues. Most of this difference is attributed to, as previously discussed, a general increase in wages and salaries, an increase in health insurance costs, and an increase in expenditures associated with community schools.

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The School District's ending unobligated cash balance was \$12.3 million above the final budgeted amount. This is attributed to the School District receiving \$9.3 million more in revenues and spending \$3.0 million less in expenditures than what was budgeted. The \$9.3 million difference in revenues was mainly due to the School District receiving \$3.7 million more in taxes revenue and \$5.4 million more in intergovernmental revenue than it budgeted. The \$3.0 million variance in expenditures was mostly the result of the School District spending \$1.4 million less in regular instruction expenditures than what was budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$54.4 million invested in capital assets. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003 as follows:

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

	Governmental Activities	
	2004	2003
Land	\$5.3	\$5.3
Construction In Progress	0.5	0.0
Land Improvements	0.1	0.1
Buildings and Improvements	42.0	42.8
Furniture and Equipment	5.6	5.9
Vehicles	0.9	1.3
Totals	<u>\$54.4</u>	<u>\$55.4</u>

The decrease is due to recognizing \$3.5 million in depreciation expense in fiscal year 2004. The largest decline in value was in buildings and improvements. For further information on capital assets, see Note 9 of the notes to the basic financial statements.

As of June 30, 2004, the School District had contractual commitments for construction projects with contractors in the amount of \$0.4 million.

Debt Administration

At June 30, 2004, the School District had \$0.7 million in debt outstanding, \$0.2 million due within one year.

On March 11, 2002, the School District entered into a five-year capital lease agreement for 109 copiers. These copiers have been originally capitalized in the amount of \$2,398,000. The amount outstanding as of June 30, 2004 was \$0.7 million. The lease agreement matures during fiscal year 2007.

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

On March 1, 1988, the School District obtained a loan in the amount of \$141,533 for the purpose of providing asbestos removal for the School District. The amount outstanding as of June 30, 2004 was \$27,520. The loan was issued for a 20 fiscal year period with final maturity during fiscal year 2008.

At June 30, 2004, the School District's overall legal debt margin was \$260.8 million with an unvoted debt margin of \$2.9 million. The debt is well within permissible limits. For further information on debt obligations, see Note 15 of the notes to the basic financial statements.

For the Future

As the preceding information shows, the School District heavily depends on its property taxpayers. Financially, the future is not without challenges.

A large number of students withdrew from the School District to attend community schools during fiscal year 2004. If this trend continues, the future looks bleak.

Management must diligently plan expenses, staying carefully within the School District's five-year plan.

Additional revenues must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year plan.

The Ohio Supreme Court found the State of Ohio in March of 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District does not anticipate any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of commercial and industrial property tax. With \$60 of every \$100 paid in taxes for the School District coming from business or industry, this could have a significant impact on the School District's residential taxpayers.

Akron City School District management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

Contacting the School District's Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jack Pierson, Treasurer, at Akron City School District, 70 North Broadway, Akron, Ohio 44308-1999 or email at jpierson@akron.k12.oh.us.

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Akron City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$32,971,568
Cash and Cash Equivalents In Segregated Accounts	15,519,622
Investments in Segregated Accounts	73,160,842
Accrued Interest Receivable	316,800
Accounts Receivable	17,988
Intergovernmental Receivable	93,810,670
Inventory Held for Resale	367,094
Materials and Supplies Inventory	460,971
Taxes Receivable	108,337,582
Deferred Expense	87,000,000
Nondepreciable Capital Assets	5,828,233
Depreciable Capital Assets, Net	<u>48,582,547</u>
<i>Total Assets</i>	<u>466,373,917</u>
Liabilities	
Accounts Payable	2,248,534
Deferred Revenue	101,399,721
Intergovernmental Payable	95,291,564
Claims Payable	4,100,728
Due to City of Akron	85,483,627
Long-Term Liabilities:	
Due Within One Year	2,984,898
Due In More Than One Year	<u>25,554,471</u>
<i>Total Liabilities</i>	<u>317,063,543</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	53,669,823
Restricted for:	
Capital Projects	86,520,679
Debt Service	66,096
Other Purposes	7,674,397
Unrestricted	<u>1,379,379</u>
<i>Total Net Assets</i>	<u><u>\$149,310,374</u></u>

See accompanying notes to the basic financial statements

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

	Program Revenues				Net (Expenses)
					Revenues
					and Changes
Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	in Net Assets
Governmental Activities					
Instruction:					
Regular	\$149,359,975	\$3,053,209	\$30,024,504	\$0	(\$116,282,262)
Special	32,538,921	333,853	6,342,514	0	(25,862,554)
Vocational	12,583,000	307,735	195,660	0	(12,079,605)
Adult/Continuing	2,303,701	862,883	1,174,910	0	(265,908)
Support Services:					
Pupil	17,800,464	6,792	1,437,214	0	(16,356,458)
Instructional Staff	23,461,357	78,077	9,064,474	76,394	(14,242,412)
Board of Education	100,069	0	0	0	(100,069)
Administration	20,385,117	432,561	1,094,003	0	(18,858,553)
Fiscal	3,899,324	1,093	307,232	0	(3,590,999)
Business	6,857,979	107,881	9,426	0	(6,740,672)
Operation and Maintenance of Plant	30,986,836	33,549	1,365,028	83,589,477	54,001,218
Pupil Transportation	9,072,336	71,506	343,731	0	(8,657,099)
Central	6,672,267	4,281	445,110	595,481	(5,627,395)
Operation of Non-Instructional Services	3,440,185	14,808	3,058,761	0	(366,616)
Extracurricular Activities	3,692,188	911,368	0	0	(2,780,820)
Food Service Operations	11,195,059	1,953,708	7,689,194	0	(1,552,157)
Interest and Fiscal Charges	70,038	0	0	0	(70,038)
<i>Total Governmental Activities</i>	<u>\$334,418,816</u>	<u>\$8,173,304</u>	<u>\$62,551,761</u>	<u>\$84,261,352</u>	<u>(179,432,399)</u>
General Revenues					
Property Taxes Levied for:					
					92,727,515
					7,863
					4,183,491
					141,736,703
					469,081
					<u>4,616,968</u>
					243,741,621
					64,309,222
					<u>85,001,152</u>
					<u>\$149,310,374</u>

See accompanying notes to the basic financial statements

Akron City School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$20,834,769	\$2,647,161	\$195,215	\$9,170,875	\$32,848,020
Cash and Cash Equivalents In Segregated Accounts	0	0	7,832,669	3,800,613	11,633,282
Investments In Segregated Accounts	0	0	49,179,652	23,981,190	73,160,842
Taxes Receivable	103,648,263	4,681,456	0	7,863	108,337,582
Accounts Receivable	17,683	0	0	305	17,988
Intergovernmental Receivable	244,448	0	83,362,088	10,204,134	93,810,670
Accrued Interest Receivable	0	0	213,175	103,625	316,800
Interfund Receivable	2,086,383	0	0	0	2,086,383
Materials and Supplies Inventory	460,971	0	0	0	460,971
Inventory Held for Resale	0	0	0	367,094	367,094
Deferred Expense	0	87,000,000	0	0	87,000,000
<i>Total Assets</i>	<u>\$127,292,517</u>	<u>\$94,328,617</u>	<u>\$140,782,799</u>	<u>\$47,635,699</u>	<u>\$410,039,632</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$827,038	\$216,856	\$114,729	\$1,089,911	\$2,248,534
Interfund Payable	0	0	0	2,086,383	2,086,383
Intergovernmental Payable	4,711,018	87,020,469	0	1,076,935	92,808,422
Deferred Revenue	100,149,208	4,511,375	83,028,030	6,699,080	194,387,693
Due to City of Akron	0	0	57,478,116	28,005,511	85,483,627
<i>Total Liabilities</i>	<u>105,687,264</u>	<u>91,748,700</u>	<u>140,620,875</u>	<u>38,957,820</u>	<u>377,014,659</u>
Fund Balances					
Reserved for Encumbrances	179,244	397,879	99,485	2,109,768	2,786,376
Reserved for Property Taxes	3,685,378	170,081	0	0	3,855,459
Undesignated, Reported in:					
General Fund	17,740,631	0	0	0	17,740,631
Special Revenue Funds	0	0	0	5,763,530	5,763,530
Debt Service Funds	0	0	0	66,096	66,096
Capital Projects Funds	0	2,011,957	62,439	738,485	2,812,881
<i>Total Fund Balances</i>	<u>21,605,253</u>	<u>2,579,917</u>	<u>161,924</u>	<u>8,677,879</u>	<u>33,024,973</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$127,292,517</u>	<u>\$94,328,617</u>	<u>\$140,782,799</u>	<u>\$47,635,699</u>	<u>\$410,039,632</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances	\$33,024,973
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	54,410,780
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Grants	89,905,570
Delinquent Property Taxes	3,082,401
Total	92,987,971
Two internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(90,840)
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(2,483,141)
Long-term liabilities, including compensated absences, loans payable and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(27,798,412)
Loans Payable	(27,520)
Capital Leases Payable	(713,437)
Total	(28,539,369)
 <i>Net Assets of Governmental Activities</i>	 \$149,310,374

See accompanying notes to the basic financial statements

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

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$92,561,567	\$4,175,606	\$0	\$7,863	\$96,745,036
Intergovernmental	142,323,236	622,840	334,058	61,655,232	204,935,366
Interest	498,612	29,963	(57,405)	40,184	511,354
Tuition and Fees	3,141,934	0	0	1,233,692	4,375,626
Extracurricular Activities	0	0	0	1,443,426	1,443,426
Rentals	107,855	0	0	0	107,855
Charges for Services	324,278	0	0	0	324,278
Sales	0	0	0	1,953,469	1,953,469
Contributions and Donations	395,061	0	0	0	395,061
Miscellaneous	2,718,871	0	0	1,898,225	4,617,096
<i>Total Revenues</i>	<u>242,071,414</u>	<u>4,828,409</u>	<u>276,653</u>	<u>68,232,091</u>	<u>315,408,567</u>
Expenditures					
Current:					
Instruction:					
Regular	115,441,299	0	0	30,575,910	146,017,209
Special	26,919,456	0	0	5,362,592	32,282,048
Vocational	11,987,945	0	0	230,188	12,218,133
Adult/Continuing	240,702	0	0	2,029,522	2,270,224
Support Services:					
Pupil	15,673,530	0	0	1,690,940	17,364,470
Instructional Staff	13,028,050	0	0	9,809,451	22,837,501
Board of Education	98,750	0	0	0	98,750
Administration	18,451,141	0	0	1,632,958	20,084,099
Fiscal	3,529,635	0	0	327,958	3,857,593
Business	3,450,743	0	0	11,621	3,462,364
Operation and Maintenance of Plant	28,710,625	0	0	1,466,135	30,176,760
Pupil Transportation	6,474,494	0	0	403,136	6,877,630
Central	4,539,272	0	0	817,309	5,356,581
Operation of Non-Instructional Services	271,638	0	0	3,124,938	3,396,576
Extracurricular Activities	2,668,907	0	0	1,035,116	3,704,023
Food Service Operations	0	0	0	10,945,160	10,945,160
Capital Outlay	434,267	6,796,645	114,729	1,157,832	8,503,473
Debt Service:					
Principal Retirement	201,462	0	0	7,863	209,325
Interest and Fiscal Charges	70,038	0	0	0	70,038
<i>Total Expenditures</i>	<u>252,191,954</u>	<u>6,796,645</u>	<u>114,729</u>	<u>70,628,629</u>	<u>329,731,957</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(10,120,540)</u>	<u>(1,968,236)</u>	<u>161,924</u>	<u>(2,396,538)</u>	<u>(14,323,390)</u>
Other Financing Sources (Uses)					
Transfers In	13,038	0	0	189,632	202,670
Transfers Out	(187,678)	0	0	(14,992)	(202,670)
<i>Total Other Financing Sources (Uses)</i>	<u>(174,640)</u>	<u>0</u>	<u>0</u>	<u>174,640</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(10,295,180)</u>	<u>(1,968,236)</u>	<u>161,924</u>	<u>(2,221,898)</u>	<u>(14,323,390)</u>
<i>Fund Balances at Beginning of Fiscal Year</i>	<u>31,900,433</u>	<u>4,548,153</u>	<u>0</u>	<u>10,899,777</u>	<u>47,348,363</u>
<i>Fund Balances at End of Fiscal Year</i>	<u>\$21,605,253</u>	<u>\$2,579,917</u>	<u>\$161,924</u>	<u>\$8,677,879</u>	<u>\$33,024,973</u>

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds (\$14,323,390)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	2,536,917	
Current Year Depreciation	(3,498,065)	
Total		(961,148)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (34,595)

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

Delinquent Property Taxes	173,833	
Grants	82,949,727	
Tuition and Fees	(28,668)	
Sales	239	
Miscellaneous	(128)	
Total		83,095,003

Repayment of loan and capital lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 209,325

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

Compensated Absences	(2,000,253)	
Pension Obligation	(345,604)	
Total		(2,345,857)

The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (1,330,116)

Change in Net Assets of Governmental Activities \$64,309,222

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$95,120,625	\$92,827,941	\$96,522,228	\$3,694,287
Intergovernmental	140,241,007	136,860,790	142,307,459	5,446,669
Interest	496,440	484,474	498,612	14,138
Tuition and Fees	3,185,625	3,108,842	3,232,565	123,723
Rentals	106,289	103,727	107,855	4,128
Charges for Services	274,043	330,585	324,278	(6,307)
Contributions and Donations	389,324	379,940	395,061	15,121
Miscellaneous	2,706,627	2,678,269	2,705,497	27,228
<i>Total Revenues</i>	242,519,980	236,774,568	246,093,555	9,318,987
Expenditures				
Current:				
Instruction:				
Regular	113,908,212	116,046,454	114,590,387	1,456,067
Special	25,994,315	26,471,277	26,726,993	(255,716)
Vocational	11,741,114	12,074,926	11,893,556	181,370
Adult	231,590	231,590	239,238	(7,648)
Support Services:				
Pupils	15,760,505	15,649,637	15,625,745	23,892
Instructional Staff	12,844,838	13,312,798	12,972,633	340,165
Board of Education	114,349	126,024	99,610	26,414
Administration	18,846,524	18,484,026	18,302,062	181,964
Fiscal	3,610,866	3,545,926	3,526,200	19,726
Business	3,922,765	3,994,240	3,663,602	330,638
Operation and Maintenance of Plant	29,337,652	29,028,234	28,672,981	355,253
Pupil Transportation	6,346,959	6,504,773	6,462,486	42,287
Central	4,416,160	4,635,904	4,552,837	83,067
Operations of Non-Instructional Services	297,005	299,298	269,896	29,402
Extracurricular Activities	2,964,618	2,983,833	2,678,599	305,234
Capital Outlay	191,896	267,296	355,813	(88,517)
<i>Total Expenditures</i>	250,529,368	253,656,236	250,632,638	3,023,598
<i>Excess of Revenues Over Expenditures</i>	(8,009,388)	(16,881,668)	(4,539,083)	12,342,585
Other Financing Sources (Uses)				
Transfers In	0	0	13,038	13,038
Transfers Out	(170,000)	(188,094)	(187,678)	416
<i>Total Other Financing Sources (Uses)</i>	(170,000)	(188,094)	(174,640)	13,454
<i>Net Change in Fund Balance</i>	(8,179,388)	(17,069,762)	(4,713,723)	12,356,039
<i>Fund Balance at Beginning of Fiscal Year</i>	25,540,809	25,540,809	25,540,809	0
Prior Fiscal Year Encumbrances Appropriated	300,274	300,274	300,274	0
<i>Fund Balance at End of Fiscal Year</i>	\$17,661,695	\$8,771,321	\$21,127,360	\$12,356,039

Akron City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2004

	<u>Internal Service Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$123,548
Cash and Cash Equivalents in Segregated Accounts	<u>3,886,340</u>
<i>Total Assets</i>	4,009,888
Liabilities	
Claims Payable	<u>4,100,728</u>
Net Assets	
Unrestricted	<u><u>(\$90,840)</u></u>

See accompanying notes to the basic financial statements

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

	Internal Service Funds
Operating Revenues	
Charges for Services	\$33,925,478
Operating Expenses	
Purchased Services	2,304,058
Claims	32,951,536
Total Operating Expenses	35,255,594
<i>Operating (Loss)</i>	<i>(1,330,116)</i>
<i>Change in Net Assets</i>	<i>(1,330,116)</i>
<i>Net Assets at Beginning of Fiscal Year</i>	<i>1,239,276</i>
<i>Net Assets at End of Fiscal Year</i>	<i>(\$90,840)</i>

See accompanying notes to the basic financial statements

Akron City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Internal Service Funds
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received for Interfund Services	\$33,925,478
Cash Payments for Other Expenses	(2,304,058)
Cash Payments for Claims	(32,299,703)
<i>Net Cash (Used In) Operating Activities</i>	(678,283)
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(678,283)
Cash and Cash Equivalents at Beginning of Fiscal Year	4,688,171
Cash and Cash Equivalents at End of Fiscal Year	\$4,009,888
 Reconciliation of Operating (Loss) to Net Cash and Cash Equivalents (Used In) Operating Activities	
<i>Operating (Loss)</i>	(\$1,330,116)
Adjustment:	
<i>Increase in Liabilities:</i>	
Claims Payable	651,833
<i>Net Cash and Cash Equivalents (Used In) Operating Activities</i>	(\$678,283)

See accompanying notes to the basic financial statements

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

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$50,165	\$189,564
Cash and Cash Equivalents in Segregated Accounts	158,140	0
Investments in Segregated Accounts	5,000	0
Accrued Interest Receivable	10	0
<i>Total Assets</i>	<u>213,315</u>	<u>\$189,564</u>
Liabilities		
Undistributed Monies	0	\$555
Due to Students	0	189,009
<i>Total Liabilities</i>	<u>0</u>	<u>\$189,564</u>
Net Assets		
Held in Trust for Scholarships	<u>\$213,315</u>	

See accompanying notes to the basic financial statements

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

	Scholarship
Additions	
Interest	\$1,112
Contributions and Donations	50,000
<i>Total Additions</i>	51,112
Deductions	
Miscellaneous	2,051
<i>Change in Net Assets</i>	49,061
<i>Net Assets at Beginning of Fiscal Year</i>	164,254
<i>Net Assets at End of Fiscal Year</i>	\$213,315

See accompanying notes to the basic financial statements

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

Note 1 – Description of the School District and Reporting Entity

The Akron City School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of seven members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1847 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 54 square miles and is located in Summit County, and is within the City of Akron. The School District is the fifth largest in the State of Ohio (among 824 public school districts and community schools) in terms of enrollment. It is staffed by 988 full-time classified employees, 2,207 full-time certificated personnel, 139 administrative employees, and 672 part-time employees who provide services to 28,758 students and other community members. The School District currently operates 61 instructional buildings, four administrative buildings, two auxiliary buildings and one garage.

Reporting Entity

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

Non-Public Schools - Within the School District boundaries, St. Anthony School, St. Mary School, St. Matthew School, St. Paul School, St. Sebastian School, St. Vincent Elementary, Annunciation - St. John, North Akron Catholic, Our Lady of Elms Elementary, Our Lady of Elms High School, Archbishop Hoban High School, and St. Vincent - St. Mary High School are operated through the Cleveland Catholic Diocese. Arlington Christian, Emmanuel Christian Academy, Summit Christian School, Lippman Day School, St. Nicholas Orthodox, and Phoenix School are operated as private schools. Current State legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District, as directed by the non-public schools. These State transactions are reported as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has one component unit, Akron Digital Academy ("the Academy") (See Note 21). The School District appoints a voting majority of the Academy's governing board.

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

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the Akron City School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

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

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

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Permanent Improvement Capital Projects Fund The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

Classroom Facilities Capital Projects Fund The classroom facilities improvement capital projects fund accounts for financial resources received and expended in connection with contracts entered into by the School District and the Ohio Schools Facilities Commission for the construction and renovation of school buildings.

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

Proprietary Fund Type Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District only has internal service funds.

Internal Service Funds The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The School District's internal service funds account for the operation of the School District's self-insurance program for employee health benefits and a reserve established to pay for liability insurance claims over the School District's self-insured retention.

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

C. Measurement Focus

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

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

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service funds.

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from 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, interest, tuition, grants, rentals and fees.

Akron City School District
Notes to the Basic Financial Statements
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Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

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

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

E. Budgetary Data

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

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for the funds 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.

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

F. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the internal service funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements. The general fund provides advances to cover deficit cash balances at the end of the fiscal year. At the end of fiscal year 2004, the general fund advanced monies to several special revenue funds and a capital projects fund to cover negative cash balances. See Note 16 for additional information.

The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented on the statement of net assets and the balance sheet as "cash and cash equivalents in segregated accounts" and "investments in segregated accounts" since they are not required to be deposited into the School District's treasury.

During fiscal year 2004, investments were limited to overnight repurchase agreements, Federal Home Loan Bank notes, Federal Home Loan Mortgage Corporation notes, U.S. Treasury notes, Federal Home Loan Bank discount notes, Federal National Mortgage Association discount notes, a First American Treasury Money Market Fund and certificates of deposit. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$498,612, which includes \$87,478 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the basic financial statements as cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are presented on the basic financial statements as investments.

G. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used.

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

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

H. Deferred Expense

In accordance with an agreement between the School District and the City of Akron (the “City”), the City issued securities to assist in the School District’s funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District’s school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3,000,000 each year from the permanent improvement capital projects fund to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2004 are recorded as deferred expense with a corresponding intergovernmental payable.

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars for all assets except for assets capitalized in the food service nonmajor special revenue fund, which has a capitalization threshold of three hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	70 years
Furniture and Equipment	3 - 20 years
Vehicles	7 years

J. Interfund Balances

On the fund financial statements, outstanding interfund loans are classified as “interfund receivables/ payables”. Interfund balances are eliminated in the statement of net assets.

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 employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Activity

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

N. Fund Balance Reserves

The School District reserves those portions of fund balances which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicate that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and property taxes.

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

O. 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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments. Net assets restricted for other purposes include food service operations and student activities.

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Q. Estimates

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

Note 3 – Accountability and Compliance

A. Accountability

The following funds had deficit fund balances on a GAAP basis at June 30, 2004:

Fund Type/Fund	Amount
Special Revenue Funds	
Disadvantaged Pupil Impact Aid	\$358,747
Alternative Schools	17,324
Miscellaneous State Grants	99,125
Adult Basic Education	8,845
Job Training Partnership Act	1,803
Vocational Education	243,910
Title III - Limited English Proficiency	31,878
Title VI	13,967
Drug-Free Schools	2,871
Preschool Handicapped	11,350
Title II-A	47,428
 Capital Projects Fund	
Building - LFI	27,461
 Internal Service Fund	
Self-Insurance	90,840

The fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

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

Legal Compliance

Contrary to Section 5705.10 of the Ohio Revised Code, the following funds had deficit cash balances throughout the fiscal year and at fiscal year end:

Fund Type/Fund	Sep.	Dec.	Feb.	June
General Fund				
Rotary		\$78,169	\$39,304	
Special Revenue Funds				
Post Secondary		4,929	3,527	\$1,643
Public School Preschool		21,578	8,310	
Career Supplemental Equipment	\$12,945	4,003		
Alternative Schools			73,199	
Miscellaneous State Grants				603,151
Adult Basic Education		81,443	64,156	
Job Training Partnership Act	443,664	69,407	42,743	83,764
Title VI-B	502,395	1,427,022	226,668	
Vocational Education	374,345	73,503	26,713	231,403
Head Start	265,258	449,010	395,741	569,841
Title III - Limited English Proficiency		723		36,795
Title I		729,641	2,568,876	
Title VI		38,426	7,095	41,273
Drug-Free Schools	9,186	25,926	8,705	1,872
Pre-School Handicapped	32,714	55,439	7,169	8,422
Title II-A		285,202	132,098	
Miscellaneous Federal Grants	41,027	58,553		
Capital Projects Fund				
Classroom Facilities		41,000		
Ohio Schools Facilities Commission	513,091	540,474	549,927	550,098
Agency Fund	417,654			

Note 4 - Budgetary Basis of Accounting

While the School 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, for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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 balances (GAAP basis).

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

	<u>Net Change In Fund Balance</u>
GAAP Basis	(\$10,295,180)
Net Adjustment for Revenue Accruals	4,022,141
Net Adjustment for Expenditure Accruals	1,869,997
Adjustment for Encumbrances	<u>(310,681)</u>
Budget Basis	<u><u>(\$4,713,723)</u></u>

Note 5 - Deposits and Investments

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

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

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

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

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

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

Interim monies may be invested in the following securities:

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$5,687,888 and the bank balance was \$11,894,449. Of the bank balance:

1. \$378,749 was covered by federal deposit insurance.
2. \$11,515,700 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

	Category 3	Carrying and Fair Value
Overnight Repurchase Agreements	\$31,779,000	\$31,779,000
Federal Home Loan Bank Notes	59,750,000	59,277,734
Federal Home Loan Mortgage Corporation Notes	6,061,928	5,981,389
U.S. Treasury Notes	7,781,926	7,707,719
Federal Home Loan Bank Discount Notes	6,945,937	6,952,117
Federal National Mortgage Association Discount Notes	4,573,716	4,577,793
First American Treasury Money Market Fund	91,261	91,261
 Total Investments	 \$116,983,768	 \$116,367,013

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

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

A reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$48,889,059	\$73,165,842
Overnight Repurchase Agreements	(31,779,000)	31,779,000
Federal Home Loan Bank Discount Notes	(6,952,117)	6,952,117
Federal National Mortgage Association Discount Notes	(4,577,793)	4,577,793
First American Treasury Money Market Fund	(91,261)	91,261
Investments with Maturity Greater than Three Months	199,000	(199,000)
GASB Statement No. 3	\$5,687,888	\$116,367,013

Note 6 - Property Taxes

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

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

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004, which became a lien December 31, 2002, were levied after April 1, 2003 and are collected in calendar year 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$3,685,378 in the general fund and \$170,081 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$7,646,039 in the general fund and \$321,327 in the permanent improvement capital projects fund.

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

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

	2003 Second		2004 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,516,475,040	84.53%	\$2,498,374,630	86.24%
Public Utility Personal	122,788,680	4.12%	122,009,620	4.21%
Tangible Personal Property	337,689,503	11.34%	277,025,626	9.56%
Total	<u>\$2,976,953,223</u>	<u>100.00%</u>	<u>\$2,897,409,876</u>	<u>100.00%</u>

Tax rate per \$1,000 of assessed valuation	\$63.76	\$63.76
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Note 7- Contingencies

A. Grants

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

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

B. Litigation

The School District is party to various legal proceedings. The amount of the liability, if any, can not be reasonably estimated at this time. However, in the opinion of management, any such claim or lawsuit will not have a material adverse effect, if any, on the financial condition of the School District.

Note 8 – Receivables

Receivables at June 30, 2004 consisted of taxes, interest, accounts (student transportation fees), interfund and intergovernmental (tuition and grants). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one fiscal year.

A summary of the items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Tuition and Fees	\$214,386
Miscellaneous	4,589
JROTC	18,368
Ohio Motor Fuel Tax Refund	2,155
GED Reimbursement	4,950
Other Local Grants	256,257
Post Secondary	1,643
Ohio Reads	6,000
Alternative Schools	5,849
Miscellaneous State Grants	654,818
Job Training Partnership Act	82,482
Title VI-B	772,773
Vocational Education	33,696
Head Start	586,018
Title III - Limited English Proficiency	123,978
Title I	4,178,499
Title VI	99,742
Drug-Free Schools	73,135
Pre-School Handicapped	16,472
Title II-A	1,088,452
Miscellaneous Federal Grants	327,885
Food Service	857,825
Classroom Facilities	83,362,088
Ohio Schools Facilities Commission	<u>1,038,610</u>
 Total Intergovernmental Receivables	 <u><u>\$93,810,670</u></u>

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

Note 9 – Capital Assets

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

	Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$5,263,636	\$0	\$0	\$5,263,636
Construction In Progress	0	564,597	0	564,597
<i>Total Capital Assets, not being depreciated</i>	<u>5,263,636</u>	<u>564,597</u>	<u>0</u>	<u>5,828,233</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	102,896	0	0	102,896
Buildings and Improvements	91,377,814	627,849	0	92,005,663
Furniture and Equipment	39,781,711	1,253,564	(1,380,974)	39,654,301
Vehicles	6,373,676	90,907	(15,000)	6,449,583
<i>Total Capital Assets, being depreciated</i>	<u>137,636,097</u>	<u>1,972,320</u>	<u>(1,395,974)</u>	<u>138,212,443</u>
Less Accumulated Depreciation:				
Land Improvements	0	(5,574)	0	(5,574)
Buildings and Improvements	(48,571,331)	(1,477,446)	0	(50,048,777)
Furniture and Equipment	(33,850,291)	(1,497,369)	1,346,379	(34,001,281)
Vehicles	(5,071,588)	(517,676)	15,000	(5,574,264)
Total Accumulated Depreciation	<u>(87,493,210)</u>	<u>(3,498,065)</u>	<u>1,361,379</u>	<u>(89,629,896)</u>
Total Capital Assets, being depreciated, net	<u>50,142,887</u>	<u>(1,525,745)</u>	<u>(34,595)</u>	<u>48,582,547</u>
Governmental Activities Capital Assets, Net	<u>\$55,406,523</u>	<u>(\$961,148)</u>	<u>(\$34,595)</u>	<u>\$54,410,780</u>

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

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,648,225
Special	57,822
Vocational	318,064
Adult/Continuing	10,949
Support Services:	
Pupil	174,264
Instructional Staff	146,624
Board of Education	1,019
Administration	30,112
Fiscal	1,333
Business	77,966
Operation and Maintenance of Plant	225,779
Pupil Transportation	298,930
Central	318,454
Operation of Non-Instructional Services	33,515
Extracurricular Activities	18,818
Food Service Operations	<u>136,191</u>
 Total Depreciation Expense	 <u><u>\$3,498,065</u></u>

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the School District contracted for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided is as follows:

Type of Coverage	Coverage Amount
Building and Contents - loss limit (\$25,000 self-insured retention)	\$100,000,000
Boiler and Machinery (\$5,000 deductible)	100,000,000
Automobile Liability (\$25,000 self-insured retention)	1,000,000
General Liability	
Per occurrence (\$25,000 self-insured retention)	1,000,000
Total per year (with a \$1,000,000 umbrella)	2,000,000

Settled claims have not exceeded commercial coverage in any of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

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

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

Medical/surgical insurance is offered to employees on a self-insured basis. The School District has various third-party administrators for the self-insurance activity. The claims liability of \$4,100,728 reported in the self-insurance internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount follows for the last two fiscal years:

	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2003	\$3,420,692	\$29,320,594	\$29,292,391	\$3,448,895
2004	3,448,895	32,951,536	32,299,703	4,100,728

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$3,426,010, \$2,938,506 and \$1,883,450, respectively; 50.36 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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 of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$19,070,211, \$18,517,776, and \$13,353,285, respectively; 83.44 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$88,213 made by the School District and \$221,205 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 of Ohio have an option to choose Social Security or the School Employees Retirement/State Teachers Retirement System of Ohio. As of June 30, 2004, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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

Note 12 - Post Employment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$1,466,939 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 0.92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established as \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$2,413,494.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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

Note 13 - Other Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees working 52 weeks per year earn 5 to 25 days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid upon termination of employment. Employees working less than 52 weeks per year do not earn vacation. Employees earn sick leave at the rate of one and one-fourth days per month or the equivalent in hours per month. Sick leave may be accumulated up to a maximum of 400 days for all staff. Upon retirement, payment is made for one-fourth of the total sick leave accumulation. Employees receive 1) two additional days for each year of perfect attendance commencing July 1, 1976 through June 30, 1981; and 2) one additional day for each year of perfect attendance commencing July 1, 1981.

B. *Insurance Benefits*

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

Note 14 – Capital Leases

Capital lease obligations relate to copiers for the School District. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases.” Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been originally capitalized in the amount of \$2,398,000.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

Fiscal Year Ending June 30,	Governmental Activities
2005	\$271,500
2006	271,500
2007	267,270
Total	810,270
Less: Amount Representing Interest	(96,833)
Present Value of Net Minimum Lease Payments	\$713,437

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

Note 15 - Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

Governmental Activities:	Principal Outstanding 6/30/2003	Additions	Reductions	Principal Outstanding 6/30/2004	Amount Due in One Year
1988 \$141,533 0% Asbestos Loan	\$35,383	\$0	(\$7,863)	\$27,520	\$7,863
Capital Leases	914,899	0	(201,462)	713,437	219,270
Compensated Absences	25,798,158	4,277,961	(2,277,707)	27,798,412	2,757,765
Total Governmental Activities Long-Term Liabilities	<u>\$26,748,440</u>	<u>\$4,277,961</u>	<u>(\$2,487,032)</u>	<u>\$28,539,369</u>	<u>\$2,984,898</u>

Asbestos Loan - On March 1, 1988, the School District obtained a loan in the amount of \$141,533 for the purpose of providing asbestos removal for the School District. The loan was issued for a 20-year period with final maturity during fiscal year 2008. The loan is being retired from the debt service fund.

Principal requirements to retire the asbestos loan outstanding at June 30, 2004 are as follows:

	<u>Principal</u>
2005	\$7,863
2006	7,863
2007	7,863
2008	<u>3,931</u>
Total	<u>\$27,520</u>

Capital leases will be paid from the general fund. Compensated absences will be paid from the fund from which the employee is paid, which includes the following: general, other local grants, auxiliary services, education management information system, public school preschool, disadvantaged pupil impact aid, Ohio reads, alternative schools, miscellaneous state grants, adult basic education, job training partnership act, title VI-B, vocational education, head start, title III-limited english proficiency, title I, title VI, drug-free schools, pre-school handicapped, title II-A, miscellaneous federal grants, food service, adult education, permanent improvement, and schoolnet plus.

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

Note 16 – Interfund Transfers and Balances

A. Transfers

Transfers are primarily from the general fund to various funds within the School District. Transfers from the general fund totaling \$187,678 were made to move unrestricted balances to support programs and projects accounted for in nonmajor funds.

The career education special revenue fund and the miscellaneous federal grants special revenue fund transferred \$5,954 and \$7,085, respectively, to the general fund to return portions of previous transfers from the general fund that were not spent.

The uniform school supplies special revenue fund transferred the unexpended balance of an art class at Kenmore High School amounting to \$264 to the public support special revenue fund due to the termination of the activity.

In addition, the district managed activities special revenue fund transferred the unexpended balances of the following activities to the public school support special revenue fund due to the termination of the activities: the Ski Club at North High School amounting to \$453, Women in Science at Firestone High School totaling \$512, the Alchemy Club at Firestone High School equaling \$40, DECA/BUS at Firestone High School amounting to \$100, the Industrial Arts Club at Firestone High School totaling \$1, Industrial Arts Lab at Firestone High School equaling \$300, Audio Visual at Firestone High School amounting to \$141, SADD at Firestone High School totaling \$133, and the Chess Club at Firestone High School equaling \$8.

Transfers made during the fiscal year ended June 30, 2004 were as follows:

	Transfers From		
Transfers To	General Fund	Nonmajor Funds	Total
General Fund	\$0	\$13,038	\$13,038
Nonmajor Funds	187,678	1,954	189,632
Total	\$187,678	\$14,992	\$202,670

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

B. Balances

The general fund advanced funds to various special revenue funds and a capital projects fund to cover negative cash balances at the end of fiscal year 2004 on the GAAP basis.

Advanced To	Nonmajor Funds
Post Secondary	\$1,643
Miscellaneous State Grants	597,678
Job Training Partnership Act	80,156
Vocational Education	227,740
Head Start	545,750
Title III - Limited English Proficiency	36,610
Title VI	40,077
Preschool Handicapped	6,631
Ohio Schools Facilities Commission	550,098
Total	\$2,086,383

Note 17 – Set Asides

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

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

	Textbooks & Instructional Materials Reserve	Capital Improvements Reserve	Budget Stabilization Reserve
Set-aside Reserve Balances as of June 30, 2003	(\$2,605,264)	\$0	\$468,997
Current Fiscal Year Set-aside Requirements	4,341,797	4,341,797	0
Qualifying Disbursements	(3,185,564)	(11,692,978)	(468,997)
Totals	(\$1,449,031)	(\$7,351,181)	\$0
Set-aside Balances Carried Forward to Future Fiscal Years	(\$1,449,031)	\$0	\$0

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

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials and capital improvements set-aside amounts below zero. This extra amount may be used to reduce the set-aside requirement of future fiscal years for the textbooks and instructional materials set aside. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

Note 18 – State School Funding Decision

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

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

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

Note 19 – Construction Commitments

The School District has active construction projects as of June 30, 2004. At fiscal year end, the School District’s commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Gynasium stairs concrete repair at Central-Hower High School	\$0	\$25,500
Roof repairs at East High School	0	24,338
Press box replacement at Ellet High School	113,271	62,381
Vocational education roof replacement at Ellet High School	0	12,325
Second floor business office education exit stairs replacement at Ellet High School	0	14,900
Courtyard planter repair at Firestone High School	0	10,800
Kitchen remodeling at Firestone High School	0	34,873
Carpentry shop modification at Kenmore High School	0	78,185
Water main service at Barber Elementary School	0	13,594
Boiler replacement at Glover Elementary School	9,366	48,394
Modular classroom unit at Heminger Elementary School	223,937	19,908
Security system installation at Distribution Center	0	19,434
	<u>\$346,574</u>	<u>\$364,632</u>

These commitments are being financed entirely with property taxes, interest, and homestead/rollback taxes.

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

Note 20 – Ohio Schools Facilities Commission Construction Project

Voters in the City passed an ordinance in May of 2003 levying a 0.25 percent additional municipal income tax for the purpose of acquiring, constructing, renovating, and adding to interests in land and the School District's school buildings. This tax will last for 30 years and will raise \$284,208,394 in local funds needed to be eligible for \$408,982,810 of Ohio School Facilities Commission ("OSFC") monies. Also, this tax will raise \$80,706,348 in additional local funds for locally funded initiatives that are not eligible to be paid for with OSFC monies. Combined, these funds will rebuild and renovate all of the School District's school buildings into community learning centers for educating students during school hours while serving as community learning centers for recreation, education, after school and summer school programs, as well as community activities at other times, open to City residents and persons employed in the City.

The tax took effect January 1, 2004. The School District received \$85,938,403 in local funds from the City by way of this tax during fiscal year 2004. A liability, "due to City of Akron", was recorded in the amount of \$85,483,627 as of June 30, 2004. The amount of this liability was determined by reducing the \$85,938,403 the School District received from the City in fiscal year 2004 by the amount of capital expenditures made by the School District during fiscal year 2004 involving this construction project. The School District made \$454,776 in capital expenditures in fiscal year 2004 involving this project. A liability was recorded for these monies because if the School District does not spend these local funds by the end of this project, these funds would have to be returned to the City in accordance with an agreement between the School District and the City.

The School District and the City will be sharing ownership of the new community learning centers equally; therefore, School District recorded 50 percent of the \$454,776 capital expenditures as construction in progress capital assets. This totaled \$227,388 for fiscal year 2004.

The School District did not receive any OSFC monies during the 2004 fiscal year. The State has currently appropriated the entire portion of segment one funds to be remitted to the School District in the amount of \$83,362,088 for this construction project. As a result, this \$83,362,088 was recorded as an intergovernmental receivable as of June 30, 2004. On the accrual basis, the entire \$83,362,088 was recorded as revenue because all of the eligibility requirements were satisfied for this nonexchange transaction. On the modified accrual basis, only the amount available to pay the liabilities of the 2004 fiscal year was recorded as revenue. This amounted to \$334,058 for fiscal year 2004. The remaining portion was recorded as deferred revenue.

Note 21 – Akron Digital Academy

The Academy has been determined to be a discrete component unit. The School District's management has determined it is not significant; therefore, it has not been included as part of the School District's basic financial statements. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Akron Digital Academy, 70 North Broadway, Akron, Ohio 44308-1999 or by calling 330-761-2814.

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AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	DISBURSEMENTS	NON-CASH DISBURSEMENTS
NATIONAL SCIENCE FOUNDATION						
<i>(Direct)</i>						
Education and Human Resources	47.076		\$119,270		\$98,358	
Total National Science Foundation			119,270		98,358	
U.S. DEPARTMENT OF EDUCATION						
<i>(Direct)</i>						
Impact Aid	84.041		26,403		26,403	
Student Financial Assistance Cluster: Federal Family Education Loan	84.032		339,941		339,941	
Federal Pell Grant Program	84.063		173,598		173,598	
			84,178		84,178	
			139,508		139,508	
			329,040		329,040	
Federal Pell Grant Program (Administrative Allowance)			520		520	
Total Federal Pell Grant Program			726,844		726,844	
Total Student Financial Assistance Cluster			1,066,785		1,066,785	
<i>(Passed through Ohio Department of Education)</i>						
Adult Education State Grant Program	84.002	043489-AB-S1-2004	410,799		410,779	
		043489-AB-S1-03	95,844		415	
Total Adult Education State Grant Program			506,643		411,194	
Special Education Cluster: Special Education Grants to States	84.027	043489-6B-SD-04P	18,260		22,425	
		043489-6B-SD-04P	21,397		22,472	
		043489-6B-SD-04P	21,230		29,371	
		043489-6B-SA-04P	28,708		36,194	
		043489-6B-SF-2004	3,470,842		3,291,338	
		043489-6B-SF-03P	827,973		833,427	
		043489-6B-SD-03P	0		29,531	
		043489-6B-SD-03P	0		25,959	
Total Special Education Grants to States			4,388,410		4,290,717	
Special Education Preschool Grants	84.173	043489-PG-S1-2004	138,328		146,749	
		043489-PG-S1-2003P	46,297		47,777	
Total Special Education Preschool Grants			184,625		194,526	
Total Special Education Cluster			4,573,035		4,485,243	
Vocational Education-Basic Grants to States	84.048	CDPIII-S04-095	646,143		856,771	
		VECDPIII-A-2004-095	135,910		131,150	
		CPIII-S02	121,366		34,429	
		CPIII-A02	32,021		0	
Total Vocational Education-Basic Grants to States			935,440		1,022,350	
Vocational Education National Programs	84.051	VEAFSC-2003-01	2,700		0	
Tech - Prep Education: Tech - Prep Education - Firestone	84.243	0011692VETP03PLTW3	6,000		18,232	
Tech - Prep Education - Garfield		013128VETO03PLTW4	6,000		19,881	
Total Tech - Prep Education			12,000		38,113	
Title I Grants to Local Educational Agencies	84.010	043489-C1-S1-04	12,602,393		11,738,472	
		Title I Delinquent	50,192		0	
		043489-C1-S1-03	0		250,467	
		Title I Delinquent	902		0	
		043489-C1-SK-03	139,546		125,188	
Total Title I Grants to Local Educational Agencies			12,793,033		12,114,127	
Twenty First Century Community Learning Centers	84.287	043489-T1-S1-04	421,708		403,208	
		043489-T1-S1-03	70,148		47,013	
Total Twenty First Century Community Learning Centers			491,856		450,221	
Comprehensive School Reform Demonstration	84.332	043489-RF-K1-03	9,063		7,445	
		043489-RF-K1-02	32,479		32,479	
Total Comprehensive School Reform Demonstration			41,542		39,924	

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	DISBURSEMENTS	NON-CASH DISBURSEMENTS
Education for Homeless Children and Youth	84.196	043489-HC-S1-04 043489-HC-S1-03 043489-HC-SP-2003	106,877 0 27,600		119,352 54 27,600	
Total Education for Homeless Children and Youth			134,477		147,006	
State Grants for Innovative Programs	84.298	043489-C2-S1-04 043489-C2-S1-03 043489-C2-S1-02	187,410 4,353 47,365		228,683 1,311 0	
Total State Grants for Innovative Programs			239,128		229,994	
English Language Acquisition Grants (Title III LEP)	84.365	043489-T3-S1-03 043489-T3-S1-2004 043489-T3-S2-2004	22,430 24,674 15,908		8,862 41,165 36,212	
Total English Language Acquisition Grants			63,012		86,239	
Refugee and Entrant Assistance Discretionary Grants	93.576	N/A N/A N/A	10,000 15,300 4,205		0 0 0	
Total Refugee and Entrant Assistance Discretionary Grants			29,505		0	
Improving Teacher Quality State Grants	84.367	043489-TR-S1-04 043489-TR-S1-03	2,622,161 0		2,602,473 116,037	
Total Improving Teacher Quality State Grants			2,622,161		2,718,510	
Safe and Drug Free Schools and Communities - National Programs	84.184	043489-T4-S1-04-102	20,563		19,995	
Safe and Drug Free Schools and Communities - State Grants	84.186	043489-DR-S1-04 043489-DR-S1-03	276,997 14,410		278,869 30,145	
Total Safe and Drug Free Schools and Communities - State Grants			291,407		309,014	
Education Technology - State Grants	84.318	043489-TJ-S1-04 043489-TJ-S1-03	225,449 44,324		161,337 56,813	
Total Education Technology - State Grants			269,773		218,150	
Goals 2000/Ohio Consortium for Concept. Learn. Performance Incentive Grant	84.276	043489-G2-ST-99 043489-G2-S1-01	0 0		7,085 6,691	
Total GOALS 2000 State and Local Educational Systemic Improvement Programs			0		13,776	
School Renovation Grants	84.352	1810-0642	0		23,891	
<i>(Passed through the University of Akron)</i> Tech Prep/EMT Fire Training	84.049	N/A	4,500		3,921	
Total U.S. Department of Education			24,123,963	0	23,424,856	0
U.S. DEPARTMENT OF LABOR <i>(Passed through City of Akron)</i>						
Work Force Investment Act Youth Activities	17.259	N/A N/A N/A	0 393,329 90,169		1,282 472,712 331	
Total Work Force Investment Act Youth Activities			483,498		474,325	
Temporary Assistance for Needy Families (TANF)	93.558	N/A	273,803		248,276	
Total U.S. Department of Labor			757,301	0	722,601	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(Passed through the Ohio Department of Mental Retardation & Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	999,974		999,974	
<i>(Passed through Akron Summit Community Action Agency)</i> Head Start	93.600	PA-22-02-04 PA-22-02-04 PA-22-02-03 PA-22-01-03	1,022,051 5,831 1,106,832 11,007		1,608,069 10,078 726,128 7,712	
Total Head Start			2,145,721		2,351,987	
<i>(Passed through the County of Summit)</i> Adult Education - State Grant Program	84.002	N/A	347,347		347,347	
Temporary Assistance for Needy Families (TANF)	93.558	N/A N/A	15,959 0		12,481 (116)	
Total Temporary Assistance for Needy Families (TANF)			15,959		12,365	
Total U.S. Department of Health and Human Services			3,509,001	0	3,711,673	0

AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	DISBURSEMENTS	NON-CASH DISBURSEMENTS
U.S. DEPARTMENT OF JUSTICE						
<i>(Passed through the City of Akron)</i>						
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2003-JJ-CP1-0062 2002-JJ-CP1-0062	7,313 0		611 19,748	
Total Juvenile Justice and Delinquency Prevention Allocation to States			<u>7,313</u>	<u>0</u>	<u>20,359</u>	<u>0</u>
Total U.S. Department of Justice			7,313	0	20,359	0
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Donation	10.550	N/A		680,377		671,246
School Breakfast Program	10.553	N/A	1,208,030		1,208,030	
National School Lunch Program	10.555	N/A	5,209,798		5,209,798	
Total Child Nutrition Cluster			<u>6,417,828</u>	<u>680,377</u>	<u>6,417,828</u>	<u>671,246</u>
Total U.S. Department of Agriculture			6,417,828	680,377	6,417,828	671,246
U.S. DEPARTMENT OF DEFENSE						
<i>(Direct)</i>						
Air Force R.O.T.C. Grant	12.XXX		45,965		45,965	
Army R.O.T.C. Grant	12.XXX		59,092		59,092	
Marines R.O.T.C. Grant	12.XXX		42,958		42,958	
Navy R.O.T.C. Grant	12.XXX		35,657		35,657	
Total U.S. Department of Defense			<u>183,672</u>	<u>0</u>	<u>183,672</u>	<u>0</u>
TOTALS			<u>\$35,118,348</u>	<u>\$680,377</u>	<u>\$34,579,347</u>	<u>\$671,246</u>

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

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D - EPA ASBESTOS LOAN

On March 1, 1998, the District obtained a loan from the Environmental Protection Agency in the amount of \$141,533 for the purpose of providing asbestos removal in District buildings. The loan will be completely repaid during fiscal year 2008. The loan has no continuing compliance requirements and is not reflected on the Schedule.

NOTE E - MEDICAL ASSISTANCE PROGRAM

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program are commingled with local funds. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-001.

We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated January 20, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated January 20, 2005.

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



Betty Montgomery
Auditor of State

January 20, 2005



Auditor of State Betty Montgomery

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

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education:

Compliance

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

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

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

We noted an instance of noncompliance that did not require inclusion in this report that we have reported to the District's management in a separate letter dated January 20, 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.

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 20, 2005

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Student Financial Aid Cluster: Federal Pell Grant Program (CFDA 84.063); Federal Family Education Loan Program (CFDA 84.032); Title I (CFDA 84.010); Medicaid Assistance Program (CFDA 93.778)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$1,057,518 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that money that is paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the disbursements of another fund.

Throughout fiscal year 2004, certain funds incurred negative cash fund balances as follows:

Fund	Sep-03	Dec-03	Feb-04	Jun-04
Classroom Facilities 010	n/a	(\$41,000)	n/a	n/a
Rotary 014	n/a	(78,169)	(\$39,304)	n/a
Agency 022	(\$417,654)	n/a	n/a	n/a
Post Secondary 413	n/a	(4,929)	(3,527)	(\$1,643)
Public School Preschool 439	n/a	(21,578)	(8,310)	n/a
Career Supp Equipment 461	(12,945)	(4,003)	n/a	n/a
Alternative School 463	n/a	n/a	(73,199)	n/a
Ohio Schools Facility Learn 496	(513,091)	(540,474)	(549,927)	(550,098)
Misc. State Grants 499	n/a	n/a	n/a	(603,151)
Adult Basic Education 501	n/a	(81,443)	(64,156)	n/a
JTPA 502	(443,664)	(69,407)	(42,743)	(83,764)
Title VIB 516	(502,395)	(1,427,022)	(226,668)	n/a
Vocational Education 524	(374,345)	(73,503)	(26,713)	(231,403)
Head Start 525	(265,258)	(449,010)	(395,741)	(569,841)
Title III – LEP 551	n/a	(723)	n/a	(36,795)
Title I 572	n/a	(729,641)	(2,568,876)	n/a
Title VI 573	n/a	(38,426)	(7,095)	(41,273)
Drug Free 584	(9,186)	(25,926)	(8,705)	(1,872)
Preschool Grant 587	(32,714)	(55,439)	(7,169)	(8,422)
Title II – A 590	n/a	(285,202)	(132,098)	n/a
Misc. Federal Grants 599	(41,027)	(58,553)	n/a	n/a

The District should monitor receipts and disbursements on a regular basis to ensure a sufficient fund balance exists before authorizing the expenditure of funds. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund from the General Fund.

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (con't)**

FINDING NUMBER 2004-002

Reportable Condition

Service Organization - Health Insurance Processing Assurances

The District has delegated employees' health insurance processing, which is a significant accounting function, to several third-party administrators. The District has not established procedures to determine whether one of these service organizations (SummaCare) has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the District help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by SummaCare. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the District with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the District require a Type Two SAS 70 report in its contract with SummaCare. The District should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If SummaCare refuses to furnish the District with a Type Two SAS 70 report, we recommend the District contract with a third-party administrator that will provide such a report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.10 – Negative cash fund balances.	No	Repeated as item 2004-001.



**Auditor of State
Betty Montgomery**

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**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 22, 2005**