



**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**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, the discretely presented component unit, 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is 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 Federal Awards Receipts and Expenditures Schedule 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 30, 2006

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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, 2005 are as follows:

- Total net assets increased \$17.6 million. This is an 11.8 percent increase from fiscal year 2004.
- Total revenues decreased to \$349.3 million from \$398.7 million. This is a decrease of \$49.4 million or 12.4 percent.
- Total program expenses were \$331.7 million. Total program expenses decreased from \$334.4 million from fiscal year 2004. This is a decrease of \$2.7 million or 0.8 percent.
- The fund balance in the general fund increased \$3.6 million. This is a 16.7 percent increase from fiscal year 2004.

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.

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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 2005?” 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.

Most 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 2005 compared to fiscal year 2004 as follows:

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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Table 1
 Net Assets at June 30,
 (In Millions)

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$399.2	\$412.0
Capital Assets, Net	65.1	54.4
<i>Total Assets</i>	<u>464.3</u>	<u>466.4</u>
Liabilities		
Current and Other Liabilities	270.9	288.5
Long-Term Liabilities		
Due Within One Year	1.7	3.0
Due in More than One Year	24.8	25.6
<i>Total Liabilities</i>	<u>297.4</u>	<u>317.1</u>
Net Assets		
Invested in Capital Assets, Net of Debt	64.6	53.6
Restricted:		
Capital Projects	86.3	86.5
Debt Service	0.0	0.1
Other Purposes	5.4	7.7
Unrestricted	10.6	1.4
<i>Total Net Assets</i>	<u>\$166.9</u>	<u>\$149.3</u>

Total assets decreased \$2.1 million.

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Cash and cash equivalents and investments decreased \$2.2 million. This decrease is mainly due to the Ohio Schools Facilities Commission ("OSFC") construction project. The School District expended \$5.0 million more than it received from the State and the City of Akron ("the City") in fiscal year 2005 involving this 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 \$284.2 million in local funds needed to be eligible for \$409.0 million of Ohio School Facilities Commission ("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.

Also, intergovernmental receivable decreased \$8.3 million. The decrease in intergovernmental receivable is mostly attributed to the OSFC receivable. At June 30, 2004, the School District recorded \$83.4 million as the OSFC receivable. The School District received \$6.9 million in OSFC monies during the 2005 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 \$83.4 million for this construction project. As a result, \$76.5 million was recorded as an intergovernmental receivable as of June 30, 2005, a decrease of \$6.9 million from fiscal year 2004.

In addition, deferred expense decreased \$3.0 million in fiscal year 2005 from fiscal year 2004. 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, 2005 are recorded as deferred expense. The School District contributed \$3.0 million to the City during fiscal year 2005 concerning these securities.

The decreases in cash and cash equivalents and investments, intergovernmental receivable and deferred expense were offset by an increase of \$10.7 million in capital assets. Construction in progress increased by \$11.8 million in fiscal year 2005 from fiscal year 2004 due to additional projects being started in the OSFC construction project. The change in capital assets will be discussed in greater detail later.

Total liabilities decreased \$19.7 million.

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The majority of this decrease can be attributed to a decrease in the liability, "due to City of Akron". This liability decreased \$11.4 million from fiscal year 2005 to fiscal year 2004. The School District received \$85.9 million in local funds from the City by way of this tax during fiscal year 2004 but did not receive any local funds from the City by way of this tax in fiscal year 2005. "Due to City of Akron" was recorded in the amount of \$74.1 million as of June 30, 2005. 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 using these local funds received from the City during fiscal years 2004 and 2005. The School District made a total of \$11.8 million in capital expenditures using these local funds received from the City in fiscal years 2004 and 2005. A liability was recorded for these unspent 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.

Also, deferred revenue decreased \$3.4 million in fiscal year 2005 from fiscal year 2004. The decrease in deferred revenue is due to an increase in the amount of property taxes available as an advance at June 30, 2005 from the amount of property taxes available as an advance at June 30, 2004. The amount of property taxes available as an advance at June 30, 2005 were levied to finance current fiscal year operations and are reported as revenue at fiscal year end instead of deferred revenue.

In addition, intergovernmental payable decreased \$3.2 million. This decrease is mainly due to the \$3.0 million payment the School District made to the City during fiscal year 2005 for the 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 as previously discussed. 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, 2005 are recorded as deferred expense. The deferred expense of \$84.0 million is offset with a corresponding intergovernmental payable.

The net impact of the assets decrease and the liabilities decrease was an increase of net assets of \$17.6 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 2005 and 2004 for governmental activities as follows:

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

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

	2005	2004
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$8.1	\$8.2
Operating Grants, Contributions and Interest	68.5	62.5
Capital Grants and Contributions	10.5	84.3
Total Program Revenues	87.1	155.0
<i>General Revenues:</i>		
Property Taxes	106.0	96.9
Grants and Entitlements	147.9	141.7
Investment Earnings	2.9	0.5
JEDD	1.0	0.0
Miscellaneous	4.4	4.6
<i>Total General Revenues</i>	<i>262.2</i>	<i>243.7</i>
Total Revenues	349.3	398.7
Program Expenses		
Instruction	199.1	196.8
Support Services:		
Pupil and Instructional Staff	37.8	41.2
Board of Education, Administration, Fiscal and Business	28.9	31.2
Operation and Maintenance of Plant	35.0	31.0
Pupil Transportation	7.2	9.1
Central	6.0	6.7
Operation of Non-Instructional Services	3.9	3.4
Extracurricular Activities	3.7	3.7
Food Service Operations	10.0	11.2
Interest and Fiscal Charges	0.1	0.1
Total Program Expenses	331.7	334.4
Increase in Net Assets	\$17.6	\$64.3

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While program revenues decreased for governmental activities from \$155.0 million to \$87.1 million, the vast majority of revenues supporting governmental activities are general revenues. General revenues increased from \$243.7 million in fiscal year 2004 to \$262.2 million in fiscal year 2005. General revenues comprised 75.1 percent of revenues supporting governmental activities. The primary sources of the increase in general revenues was an increase in property taxes revenue in the amount of \$9.1 million and an increase in grants and entitlements revenue in the amount of \$6.2 million. The increase in property taxes revenue is mainly due to an increase in the amount of property taxes available as an advance at June 30, 2005 from the amount of property taxes available as an advance at June 30, 2004. The amount of property taxes available as an advance at June 30, 2005 were levied to finance current fiscal year operations and are reported as revenue at fiscal year end instead of deferred revenue as previously discussed. The increase in grants and entitlements revenue is mostly attributed to an increase in parity aid of \$3.1 million from the State, an increase in special education catastrophic aid of \$1.0 million from the State, an increase in special education excess cost supplement of \$0.8 million from the State and an increase in career tech funds of \$0.5 million from the State.

The large decrease in program revenues is due to the School District only recognizing \$10.5 million of revenue associated with the OSFC construction project in fiscal year 2005. In fiscal year 2004, the School District recognized \$83.6 million in revenue associated with the OSFC construction project. This decrease is offset by an increase in operating grants, contributions and interest revenue of \$5.9 million. This increase is mostly attributed to an increase in Medicaid from the United States Department of Health and Human Services of \$2.3 million, a \$1.0 million JEDD payment from the City in fiscal year 2005, a new summer intervention grant amounting to \$1.1 million in fiscal year 2005 from the State and a new reading first grant amounting to \$0.8 million in fiscal year 2005 from the United States Department of Education.

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 30.3 percent of total revenues for governmental activities for the Akron City School District in fiscal year 2005.

Program expenses decreased from \$334.4 million in fiscal year 2004 to \$331.7 million, a 0.8 percent decrease.

While expense decreases were consistent with budget expectations, the decrease in program revenues, the increase in tax revenues and the increase in unrestricted State entitlements resulted in a rise of net assets of \$17.6 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.

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Table 3
(In Millions)

	<u>2005</u>		<u>2004</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	\$199.1	\$154.1	\$196.8	\$154.5
Support Services:				
Pupil and Instructional Staff	37.8	27.1	41.2	30.6
Board of Education, Administration, Fiscal and Business	28.9	25.6	31.2	29.3
Operation and Maintenance of Plant	35.0	21.9	31.0	(54.0)
Pupil Transportation	7.2	6.9	9.1	8.6
Central	6.0	5.5	6.7	5.6
Operation of Non-Instructional Services	3.9	0.5	3.4	0.4
Extracurricular Activities	3.7	2.8	3.7	2.8
Food Service Operations	10.0	0.1	11.2	1.5
Interest and Fiscal Charges	0.1	0.1	0.1	0.1
Total	<u>\$331.7</u>	<u>\$244.6</u>	<u>\$334.4</u>	<u>\$179.4</u>

The dependence upon general revenues for governmental activities is apparent. Over 73.7 percent of governmental activities are supported through taxes and other general revenues; such revenues are 75.1 percent of total governmental revenues. The community, as a whole, is by far the primary support for the Akron City School District students.

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 \$358.0 million and expenditures of \$348.0 million. The net change in fund balances for the fiscal year was an increase of \$9.9 million for all governmental funds with the most significant increase in the classroom facilities capital projects fund. The classroom facilities capital projects fund's net change in fund balance for fiscal year 2005 was an increase of \$7.5 million. This played a significant part in causing the unreserved fund balance in the classroom facilities capital projects fund to increase from \$0.1 million in fiscal year 2004 to \$1.5 million in fiscal year 2005. Intergovernmental revenue in the classroom facilities capital projects fund increased \$7.7 million or 2,302.9 percent from fiscal year 2004 to fiscal year 2005. This is due to the OSFC construction project as previously discussed. The classroom facilities capital projects fund recognized \$8.0 million revenue from the State related to this project in fiscal year 2005. Also, classroom facilities capital projects fund expenditures increased \$1.7 million or 1,461.3 percent from fiscal year 2004 to fiscal year 2005. As previously discussed, this is attributed to the expenditures associated with the OSFC construction project. Additional projects were started during fiscal year 2005.

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The permanent improvement capital projects fund's net change in fund balance for fiscal year 2005 was a decrease of \$1.3 million. During the current fiscal year, the permanent improvement capital project fund transferred \$1,448,705 to the classroom maintenance capital projects fund, a nonmajor fund, in accordance with State statute to satisfy its local maintenance requirement by earmarking from the proceeds of its existing permanent improvement tax. Fiscal year 2005 was the first fiscal year that this transfer occurred. This played a significant part in causing the unreserved fund balance in the permanent improvement capital projects fund to decrease from \$2.0 million in fiscal year 2004 to \$0.9 million in fiscal year 2005.

The general fund's net change in fund balance for fiscal year 2005 was an increase of \$3.6 million. Tax revenues increased \$8.5 million or 9.2 percent from fiscal year 2004 to fiscal year 2005. This is due to an increase in the amount of property taxes available as an advance at June 30, 2005 from the amount of property taxes available as an advance at June 30, 2004. The amount of property taxes available as an advance at June 30, 2005 were levied to finance current fiscal year operations and are reported as revenue at fiscal year end instead of deferred revenue as previously discussed. Also, intergovernmental revenues increased \$8.5 million or 6.0 percent from fiscal year 2004 to fiscal year 2005. This is attributed to an increase in parity aid of \$3.1 million from the State, an increase in special education catastrophic aid of \$1.0 million from the State, an increase in special education excess cost supplement of \$0.8 million from the State, an increase in Medicaid from the United States Department of Health and Human Services of \$2.3 million and an increase in career tech funds of \$0.5 million from the State. In addition, expenditures increased \$5.8 million or 2.3 percent from fiscal year 2004 to fiscal year 2005.

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 2005, 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 \$257.0 million, \$1.3 million below actual revenues. This difference is attributed to, as previously discussed, an \$8.6 million increase in intergovernmental revenue and a \$2.1 million increase in JEDD revenue. The increase in intergovernmental revenue is due to an increase in parity aid of \$3.1 million from the State, an increase in special education catastrophic aid of \$1.0 million from the State, an increase in special education excess cost supplement of \$0.8 million from the State, an increase in Medicaid from the United States Department of Health and Human Services of \$2.3 million and an increase in career tech funds of \$0.5 million from the State. The increase in JEDD revenue is due to a \$2.1 million JEDD payment from the City in fiscal year 2005. The increases in intergovernmental revenue and JEDD revenue are offset by an increase in expenditures of \$6.4 million. This increase is primarily due to an increase in health insurance expenditures.

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The School District's ending unobligated cash balance was \$4.6 million above the final budgeted amount. This is attributed to the School District receiving \$1.0 million more in revenues and spending \$3.6 million less in expenditures than what was budgeted. The \$1.0 million difference in revenues was mainly due to the School District receiving \$0.7 million more in intergovernmental revenue than it budgeted. The \$3.6 million variance in expenditures was mostly the result of the School District spending \$0.8 million less in instruction expenditures, \$0.6 million less in pupils support services expenditures, \$0.6 million less in extracurricular activities expenditures, \$0.4 million less in central support services expenditures and \$0.3 million less in administration support services expenditures than what was budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$65.1 million invested in capital assets. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004 as follows:

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

	Governmental Activities	
	2005	2004
Land	\$5.3	\$5.3
Construction In Progress	12.3	0.5
Land Improvements	0.1	0.1
Buildings and Improvements	40.9	42.0
Furniture and Equipment	5.8	5.6
Vehicles	0.7	0.9
 Totals	 <u>\$65.1</u>	 <u>\$54.4</u>

Capital assets increased \$10.7 million from fiscal year 2005 to fiscal year 2004. The increase is due to construction in progress increasing by \$11.8 million in fiscal year 2005 from fiscal year 2004 because of additional projects being started in the OSFC construction project. The increase in construction in progress is offset by a decrease related to recognizing \$3.1 million in depreciation expense in fiscal year 2005. For further information on capital assets, see Note 10 of the notes to the basic financial statements.

As of June 30, 2005, the School District had contractual commitments for construction projects with contractors in the amount of \$1.1 million.

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Debt Administration

At June 30, 2005, the School District had \$0.5 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, 2005 was \$0.5 million. The lease agreement matures during fiscal year 2007.

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, 2005 was \$19,657. The loan was issued for a 20 fiscal year period with final maturity during fiscal year 2008.

At June 30, 2005, the School District's overall legal debt margin was \$262.4 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 16 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 2005. 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.

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Unaudited

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, 2005

	Primary Government	Component Unit
	Governmental Activities	Akron Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$20,904,204	\$922,770
Cash and Cash Equivalents In Segregated Accounts	16,814,318	0
Investments in Segregated Accounts	81,740,309	0
Accrued Interest Receivable	285,351	0
Accounts Receivable	54,924	0
Intergovernmental Receivable	85,516,623	125,000
Prepaid Items	0	4,619
Inventory Held for Resale	347,080	0
Materials and Supplies Inventory	483,274	0
Taxes Receivable	109,009,308	0
Deferred Expense	84,000,000	0
Nondepreciable Capital Assets	17,542,350	0
Depreciable Capital Assets, Net	47,584,058	21,741
<i>Total Assets</i>	<u>464,281,799</u>	<u>1,074,130</u>
Liabilities		
Accounts Payable	1,360,192	7,700
Compensated Absences Payable	1,180,307	0
Deferred Revenue	98,035,439	125,000
Intergovernmental Payable	92,056,936	0
Claims Payable	4,098,132	0
Due to City of Akron	74,064,889	0
Long-Term Liabilities:		
Due Within One Year	1,747,016	0
Due In More Than One Year	24,835,354	0
<i>Total Liabilities</i>	<u>297,378,265</u>	<u>132,700</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	64,612,584	21,741
Restricted for:		
Capital Projects	86,252,026	0
Debt Service	13,007	0
Other Purposes	5,379,823	0
Unrestricted	10,646,094	919,689
<i>Total Net Assets</i>	<u>\$166,903,534</u>	<u>\$941,430</u>

See accompanying notes to the basic financial statements

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

	Program Revenues				Net (Expenses) Revenues and Change in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Unit Akron Digital Academy
Governmental Activities						
Instruction:						
Regular	\$149,223,137	\$3,273,528	\$29,655,488	\$0	(\$116,294,121)	\$0
Special	34,847,696	308,784	9,214,832	0	(25,324,080)	0
Vocational	13,042,230	290,556	432,713	0	(12,318,961)	0
Adult/Continuing	1,980,714	797,906	1,029,248	0	(153,560)	0
Support Services:						
Pupil	15,884,311	15,998	1,487,909	0	(14,380,404)	0
Instructional Staff	21,945,375	35,161	9,228,482	0	(12,681,732)	0
Board of Education	77,641	0	0	0	(77,641)	0
Administration	21,538,321	412,323	2,460,649	0	(18,665,349)	0
Fiscal	3,712,067	0	275,430	0	(3,436,637)	0
Business	3,539,960	167,470	11	0	(3,372,479)	0
Operation and Maintenance of Plant	34,961,464	40,521	2,489,369	10,483,747	(21,947,827)	0
Pupil Transportation	7,221,054	155,616	132,852	0	(6,932,586)	0
Central	5,995,499	3,268	518,001	0	(5,474,230)	0
Operation of Non-Instructional Services	3,873,189	15,194	3,356,279	0	(501,716)	0
Extracurricular Activities	3,719,532	938,366	0	0	(2,781,166)	0
Food Service Operations	10,026,037	1,633,762	8,248,602	0	(143,673)	0
Interest and Fiscal Charges	105,355	0	0	0	(105,355)	0
<i>Total - Primary Government</i>	<u>\$331,693,582</u>	<u>\$8,088,453</u>	<u>\$68,529,865</u>	<u>\$10,483,747</u>	<u>(244,591,517)</u>	<u>0</u>
Component Unit						
Akron Digital Academy	<u>\$3,056,358</u>	<u>\$0</u>	<u>\$104,163</u>	<u>\$0</u>	<u>0</u>	<u>(2,952,195)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					101,397,614	0
Debt Service					7,863	0
Capital Outlay					4,570,700	0
Grants and Entitlements not Restricted to Specific Programs					147,938,096	3,465,667
Investment Earnings					2,858,116	18,379
JEDD					1,048,984	0
Miscellaneous					4,363,304	410
<i>Total General Revenues</i>					<u>262,184,677</u>	<u>3,484,456</u>
Change in Net Assets					17,593,160	532,261
<i>Net Assets at Beginning of Fiscal Year</i>					<u>149,310,374</u>	<u>409,169</u>
<i>Net Assets at End of Fiscal Year</i>					<u>\$166,903,534</u>	<u>\$941,430</u>

See accompanying notes to the basic financial statements

Akron City School District

Balance Sheet

Governmental Funds

June 30, 2005

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,253,646	\$1,045,731	\$5,352,295	\$11,050,910	\$20,702,582
Cash and Cash Equivalents In Segregated Accounts	11,238,760	0	25,702	15,654	11,280,116
Investments In Segregated Accounts	6,979,545	0	57,527,532	17,233,232	81,740,309
Taxes Receivable	104,300,560	4,700,885	0	7,863	109,009,308
Accounts Receivable	44,043	0	0	10,881	54,924
Intergovernmental Receivable	172,206	0	76,467,365	8,877,052	85,516,623
Accrued Interest Receivable	114,818	0	129,330	41,203	285,351
Interfund Receivable	3,473,766	0	0	0	3,473,766
Materials and Supplies Inventory	483,274	0	0	0	483,274
Inventory Held for Resale	0	0	0	347,080	347,080
Deferred Expense	0	84,000,000	0	0	84,000,000
<i>Total Assets</i>	<u>\$130,060,618</u>	<u>\$89,746,616</u>	<u>\$139,502,224</u>	<u>\$37,583,875</u>	<u>\$396,893,333</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$349,412	\$17,037	\$422,786	\$570,957	\$1,360,192
Compensated Absences Payable	897,105	0	0	283,202	1,180,307
Interfund Payable	0	0	0	3,473,766	3,473,766
Intergovernmental Payable	6,375,352	84,045,270	0	1,636,314	92,056,936
Deferred Revenue	97,228,726	4,370,660	74,734,954	5,544,847	181,879,187
Due to City of Akron	0	0	56,713,948	17,350,941	74,064,889
<i>Total Liabilities</i>	<u>104,850,595</u>	<u>88,432,967</u>	<u>131,871,688</u>	<u>28,860,027</u>	<u>354,015,277</u>
Fund Balances					
Reserved for Encumbrances	289,668	69,213	6,112,840	2,127,685	8,599,406
Reserved for Property Taxes	7,187,205	330,225	0	0	7,517,430
Undesignated, Reported in:					
General Fund	17,733,150	0	0	0	17,733,150
Special Revenue Funds	0	0	0	5,224,530	5,224,530
Debt Service Funds	0	0	0	13,007	13,007
Capital Projects Funds	0	914,211	1,517,696	1,358,626	3,790,533
<i>Total Fund Balances</i>	<u>25,210,023</u>	<u>1,313,649</u>	<u>7,630,536</u>	<u>8,723,848</u>	<u>42,878,056</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$130,060,618</u>	<u>\$89,746,616</u>	<u>\$139,502,224</u>	<u>\$37,583,875</u>	<u>\$396,893,333</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, 2005*

Total Governmental Fund Balances	\$42,878,056
 <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.	65,126,408
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Grants	80,387,309
Delinquent Property Taxes	3,456,439
Total	83,843,748
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.	1,637,692
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	(26,068,546)
Loans Payable	(19,657)
Capital Leases Payable	(494,167)
Total	(26,582,370)
<i>Net Assets of Governmental Activities</i>	\$166,903,534

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, 2005

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$101,038,807	\$4,555,469	\$0	\$7,863	\$105,602,139
Intergovernmental	150,854,726	578,069	8,026,955	75,374,128	234,833,878
Interest	1,076,459	41,888	1,232,928	586,328	2,937,603
Tuition and Fees	3,243,543	0	0	1,172,065	4,415,608
Extracurricular Activities	0	0	0	1,659,363	1,659,363
Rentals	167,535	0	0	0	167,535
Charges for Services	307,736	0	0	0	307,736
Sales	0	0	0	1,634,001	1,634,001
JEDD	2,097,967	0	0	0	2,097,967
Miscellaneous	3,053,351	0	0	1,279,702	4,333,053
<i>Total Revenues</i>	<u>261,840,124</u>	<u>5,175,426</u>	<u>9,259,883</u>	<u>81,713,450</u>	<u>357,988,883</u>
Expenditures					
Current:					
Instruction:					
Regular	117,805,754	0	0	31,480,383	149,286,137
Special	28,630,389	0	0	6,392,471	35,022,860
Vocational	12,733,414	0	0	391,417	13,124,831
Adult/Continuing	281,922	0	0	1,693,675	1,975,597
Support Services:					
Pupil	14,651,772	0	0	1,541,111	16,192,883
Instructional Staff	12,803,546	0	0	9,871,291	22,674,837
Board of Education	77,929	0	0	0	77,929
Administration	19,300,423	0	0	3,060,552	22,360,975
Fiscal	3,504,495	0	0	313,830	3,818,325
Business	3,532,084	0	0	(128)	3,531,956
Operation and Maintenance of Plant	29,626,883	0	0	1,528,763	31,155,646
Pupil Transportation	6,994,780	0	0	168,589	7,163,369
Central	4,627,099	0	0	831,772	5,458,871
Operation of Non-Instructional Services	295,291	0	0	3,610,241	3,905,532
Extracurricular Activities	2,747,313	0	0	1,004,460	3,751,773
Food Service Operations	0	0	0	10,818,252	10,818,252
Capital Outlay	153,724	4,992,989	1,791,271	10,428,105	17,366,089
Debt Service:					
Principal Retirement	219,270	0	0	7,863	227,133
Interest and Fiscal Charges	52,230	0	0	53,125	105,355
<i>Total Expenditures</i>	<u>258,038,318</u>	<u>4,992,989</u>	<u>1,791,271</u>	<u>83,195,772</u>	<u>348,018,350</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>3,801,806</u>	<u>182,437</u>	<u>7,468,612</u>	<u>(1,482,322)</u>	<u>9,970,533</u>
Other Financing Sources (Uses)					
Transfers In	98,434	0	0	1,626,725	1,725,159
Transfers Out	(295,470)	(1,448,705)	0	(98,434)	(1,842,609)
<i>Total Other Financing Sources (Uses)</i>	<u>(197,036)</u>	<u>(1,448,705)</u>	<u>0</u>	<u>1,528,291</u>	<u>(117,450)</u>
<i>Net Change in Fund Balances</i>	3,604,770	(1,266,268)	7,468,612	45,969	9,853,083
<i>Fund Balances at Beginning 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>
<i>Fund Balances at End of Fiscal Year</i>	<u>\$25,210,023</u>	<u>\$1,313,649</u>	<u>\$7,630,536</u>	<u>\$8,723,848</u>	<u>\$42,878,056</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, 2005*

Net Change in Fund Balances - Total Governmental Funds \$9,853,083

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	13,792,265	
Current Year Depreciation	(3,067,476)	
Total		10,724,789

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.

(9,161)

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

Delinquent Property Taxes	374,038	
Grants	(9,447,584)	
Tuition and Fees	(100,690)	
Sales	(239)	
Miscellaneous	30,251	
Total		(9,144,224)

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.

227,133

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	1,729,866	
Pension Obligation	2,483,142	
Total		4,213,008

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.

1,728,532

Change in Net Assets of Governmental Activities

\$17,593,160

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, 2005

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$93,852,197	\$97,379,963	\$97,536,980	\$157,017
Intergovernmental	144,686,077	150,124,613	150,862,426	737,813
Interest	1,025,249	1,063,787	1,074,323	10,536
Tuition and Fees	3,079,020	3,194,756	3,199,907	5,151
Rentals	157,113	163,019	163,282	263
Charges for Services	277,119	336,489	307,736	(28,753)
JEDD	2,018,709	2,094,590	2,097,967	3,377
Miscellaneous	2,911,364	2,993,051	3,068,427	75,376
<i>Total Revenues</i>	<u>248,006,848</u>	<u>257,350,268</u>	<u>258,311,048</u>	<u>960,780</u>
Expenditures				
Current:				
Instruction:				
Regular	119,364,385	118,364,855	118,115,873	248,982
Special	28,951,733	28,827,167	28,311,487	515,680
Vocational	11,975,142	12,837,707	12,749,511	88,196
Adult	250,631	250,631	276,064	(25,433)
Support Services:				
Pupils	15,123,502	15,291,468	14,650,487	640,981
Instructional Staff	12,603,179	12,762,766	12,597,634	165,132
Board of Education	105,869	121,869	76,555	45,314
Administration	19,195,884	19,239,870	18,905,615	334,255
Fiscal	3,627,483	3,504,838	3,428,157	76,681
Business	4,040,461	3,895,738	3,794,870	100,868
Operation and Maintenance of Plant	29,872,039	29,626,911	29,356,846	270,065
Pupil Transportation	6,787,207	7,090,347	6,931,935	158,412
Central	5,180,600	4,908,729	4,553,655	355,074
Operations of Non-Instructional Services	263,848	286,851	290,528	(3,677)
Extracurricular Activities	3,116,352	3,362,428	2,745,643	616,785
Capital Outlay	302,433	238,435	236,387	2,048
<i>Total Expenditures</i>	<u>260,760,748</u>	<u>260,610,610</u>	<u>257,021,247</u>	<u>3,589,363</u>
<i>Excess of Revenues Over Expenditures</i>	<u>(12,753,900)</u>	<u>(3,260,342)</u>	<u>1,289,801</u>	<u>4,550,143</u>
Other Financing Sources (Uses)				
Transfers In	94,720	98,275	98,434	159
Transfers Out	(75,000)	(295,488)	(295,470)	18
<i>Total Other Financing Sources (Uses)</i>	<u>19,720</u>	<u>(197,213)</u>	<u>(197,036)</u>	<u>177</u>
<i>Net Change in Fund Balance</i>	(12,734,180)	(3,457,555)	1,092,765	4,550,320
<i>Fund Balance at Beginning of Fiscal Year</i>	21,127,370	21,127,370	21,127,370	0
Prior Fiscal Year Encumbrances Appropriated	310,682	310,682	310,682	0
<i>Fund Balance at End of Fiscal Year</i>	<u>\$8,703,872</u>	<u>\$17,980,497</u>	<u>\$22,530,817</u>	<u>\$4,550,320</u>

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2005

	<u>Internal Service Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$201,622
Cash and Cash Equivalents in Segregated Accounts	<u>5,534,202</u>
<i>Total Assets</i>	5,735,824
Liabilities	
Claims Payable	<u>4,098,132</u>
Net Assets	
Unrestricted	<u><u>\$1,637,692</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, 2005*

	Internal Service Funds
Operating Revenues	
Charges for Services	\$37,662,681
Operating Expenses	
Purchased Services	2,380,339
Claims	33,671,260
Total Operating Expenses	36,051,599
<i>Operating Income</i>	1,611,082
Transfers In	117,450
<i>Change in Net Assets</i>	1,728,532
<i>Net Assets at Beginning of Fiscal Year</i>	(90,840)
<i>Net Assets at End of Fiscal Year</i>	\$1,637,692

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, 2005

	Internal Service Funds
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received for Interfund Services	\$37,662,681
Cash Payments for Other Expenses	(2,380,339)
Cash Payments for Claims	(33,673,856)
<i>Net Cash Provided by Operating Activities</i>	1,608,486
Cash Flows from Noncapital Financing Activities	
Transfer In	117,450
<i>Net Increase in Cash and Cash Equivalents</i>	1,725,936
Cash and Cash Equivalents at Beginning of Fiscal Year	4,009,888
Cash and Cash Equivalents at End of Fiscal Year	\$5,735,824
 Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities	
<i>Operating Income</i>	\$1,611,082
Adjustment:	
<i>(Decrease) in Liabilities:</i>	
Claims Payable	(2,596)
<i>Net Cash and Cash Equivalents Provided by Operating Activities</i>	\$1,608,486

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$51,435	\$183,881
Cash and Cash Equivalents in Segregated Accounts	155,878	0
Investments in Segregated Accounts	5,000	0
Accrued Interest Receivable	15	0
	<u>212,328</u>	<u>183,881</u>
<i>Total Assets</i>		<u><u>\$183,881</u></u>
Liabilities		
Undistributed Monies	0	\$831
Due to Students	0	183,050
	<u>0</u>	<u>183,050</u>
<i>Total Liabilities</i>		<u><u>\$183,881</u></u>
Net Assets		
Held in Trust for Scholarships	<u>\$212,328</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, 2005

	<u>Scholarship</u>
Additions	
Interest	\$1,978
Deductions	
Miscellaneous	<u>2,965</u>
<i>Change in Net Assets</i>	(987)
<i>Net Assets at Beginning of Fiscal Year</i>	<u>213,315</u>
<i>Net Assets at End of Fiscal Year</i>	<u><u>\$212,328</u></u>

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, 2005

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 860 public school districts and community schools) in terms of enrollment. It is staffed by 951 full-time classified employees, 2,067 full-time certificated personnel, 135 administrative employees, and 761 part-time employees who provide services to 27,888 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. Francis de Sales, St. Anthony of Padua School, St. Mary School, St. Matthew School, St. Paul School, St. Sebastian School, St. Vincent DePaul 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, Lippman Day School, 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.

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

Discretely Presented Component Unit

The component unit column in the entity-wide financial statements identifies the financial data of the School District's component unit, the Akron Digital Academy (the "Academy"), which is reported separately to emphasize that it is legally separate from the School District.

Akron Digital Academy - The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy's program.

The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2002. The Academy began operations on October 7, 2002. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven-member Board of Directors appointed by the School District. The Board consists of a Board President, four members who hold administrative positions with the School District, one public educator or public official not employed by the School District, and one individual representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

All of the Academy's personnel services, which provided services to 728 students, were purchased from the School District during fiscal year 2005.

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.

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

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.

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.

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

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.

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.

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

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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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.

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

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

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

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.

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 2005, the general fund advanced monies to several special revenue funds and a capital projects fund to cover negative cash balances. See Note 17 for additional information.

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

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 2005, investments were limited to overnight repurchase agreements, Federal Home Loan Bank notes, Federal Home Loan Mortgage Corporation notes, U.S. Treasury notes, Federal National Mortgage Association discount notes, an Allegiant Treasury Money Market Fund, 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 2005 amounted to \$1,076,459, which includes \$79,799 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.

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, 2005 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.

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

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.

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

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

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.

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

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 and capital leases 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.

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.

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

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 – Change in Accounting Principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosure”, an amendment of GASB Statement No. 3. GASB Statement No. 40 addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement is designed to inform financial statement users about deposit and investment risk that could affect a government’s ability to provide services and meet its obligations.

Also for fiscal year 2005, the School District has implemented GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post Employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”. This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing, multiple-employer pension plan and other post employment plans. The implementation of GASB Technical Bulletin No. 2004-2 did not materially affect the basic financial statements of the School District.

Note 4 – Accountability and Compliance

A. Accountability

The following special revenue funds had deficit fund balances on a GAAP basis at June 30, 2005:

Fund	Amount
Post Secondary	\$1,263
Public School Preschool	20,106
Disadvantaged Pupil Impact Aid	386,263
Ohio Reads	19,277
Summer Intervention	407,405
Career Supplemental Equipment	1,134
Alternative Schools	20,155
Miscellaneous State Grants	60,727
Adult Basic Education	20,462
Job Training Partnership Act	2,513
Title VI-B	499,355
Vocational Education	104,533
Head Start	10,472
Title III - Limited English Proficiency	13,049
Title VI	1,144
Drug-Free Schools	7,551
Preschool Handicapped	18,807
Title II-A	23,893
Miscellaneous Federal Grants	123,377

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

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.

B. 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	Oct.	Dec.	Mar.	June
General Fund				
Rotary	\$152,304	\$419,716	\$370,261	
Special Revenue Funds				
Post Secondary	3,660	3,842	2,185	\$1,263
Professional Development	114,909	2,386	61,055	
Public School Preschool			38,358	39,665
Ohio Reads				30,213
Summer Intervention		126,472	104,756	418,365
Career Supplemental Equipment			34,328	
Alternative Schools	57,697		21,836	20,032
Miscellaneous State Grants				71,285
Adult Basic Education			78,683	75,400
Job Training Partnership Act	248,543	304,291	374,837	46,637
Title VI-B		249,991	863,379	1,403,501
Vocational Education	203,622	166	1,066	83,346
Head Start	170,875	22,199	22,199	30,000
Title III - Limited English Proficiency		885	5,317	31,056
Title I	1,348,725	1,185,471	560,225	
Title VI	25,401	5,581	7,371	
Drug-Free Schools	42,426	13,978	44,159	26,045
Pre-School Handicapped	14,073	6,060	21,439	30,363
Title II-A	360,697	331,998	280,706	524,897
Miscellaneous Federal Grants	52,187	109,178	281,010	216,959
Capital Projects Fund				
Ohio Schools Facilities Commission	550,098	550,098	550,098	550,098
Agency Fund				
	1,168,268			

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

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund 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:

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		\$3,604,770
Net Adjustment for Revenue Accruals		(3,529,076)
Net Adjustment for Expenditure Accruals		1,336,583
Adjustment for Encumbrances		<u>(319,512)</u>
Budget Basis		<u>\$1,092,765</u>

Note 6 - 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.

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

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.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School District's deposits was (\$2,664,360) and the bank balance was \$2,917,592. Of the bank balance, \$2,612,592 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 150 percent of the deposits being secured.

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

	Carrying Value	Maturity
Overnight Repurchase Agreements	\$29,698,000	Less than 1 Year
Federal Home Loan Bank Notes	27,532,973	Less than 1 Year
Federal Home Loan Mortgage Corporation Notes	20,717,416	Less than 1 Year
U.S. Treasury Notes	7,737,156	Less than 1 Year
Federal National Mortgage Association Discount Notes	25,561,765	Less than 1 Year
Allegiant Treasury Money Market Fund	11,238,760	Less than 1 Year
First American Treasury Money Market Fund	33,315	Less than 1 Year
 Total Investments	 \$122,519,385	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by stating the Treasurer shall not make investments which he/she does not reasonably believe can be held until the maturity date or leverage any investment. Also, the School District's investment policy states the purpose of the investments is to maximize the returns on the School District's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments.

The overnight repurchase agreements, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes and Federal National Mortgage Association Notes carry a rating of AAA by Standard and Poor's and Aaa by Moody's Investor Service. The U.S. Treasury Notes carry a rating of AAA by Standard and Poor's and AAA by Moody's Investor Service. The Allegiant Treasury Money Market Fund and First American Treasury Money Market Fund carry a rating of AAAM by Standard and Poor's and Aaa by Moody's Investor Service. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's investments are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirements of Ohio Revised Code Section 135.14(M)(2) which states, "Payment for investments shall be made only upon delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

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

Note 7 - Property Taxes

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

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

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

The School District receives property taxes from 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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, 2005 was \$7,187,205 in the general fund and \$330,225 in the permanent improvement capital projects fund. 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.

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

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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,498,374,630	86.23%	\$2,516,676,910	86.31%
Public Utility Personal	122,009,620	4.21%	124,166,640	4.26%
Tangible Personal Property	277,025,626	9.56%	274,843,550	9.43%
Total	<u>\$2,897,409,876</u>	<u>100.00%</u>	<u>\$2,915,687,100</u>	<u>100.00%</u>

Tax rate per \$1,000 of assessed valuation	\$63.76	\$63.76
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Note 8 - 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, 2005.

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 9 – Receivables

Receivables at June 30, 2005 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.

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

A summary of the items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Tuition and Fees	\$154,433
JROTC	17,773
Other Local Grants	45,007
Professional Development	49,733
Public School Preschool	67,836
Ohio Reads	15,833
Summer Intervention	496,099
Alternative Schools	20,422
Miscellaneous State Grants	181,707
Adult Basic Education	99,376
Job Training Partnership Act	46,637
Title VI-B	2,383,605
Vocational Education	208,159
Head Start	30,001
Title III - Limited English Proficiency	81,010
Title I	1,832,312
Title VI	20,455
Drug-Free Schools	96,893
Pre-School Handicapped	53,265
Title II-A	1,483,649
Miscellaneous Federal Grants	518,971
Food Service	107,472
Classroom Facilities	76,467,365
Ohio Schools Facilities Commission	<u>1,038,610</u>
 Total Intergovernmental Receivables	 <u><u>\$85,516,623</u></u>

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

Note 10 – Capital Assets

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

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$5,263,636	\$0	\$0	\$5,263,636
Construction In Progress	564,597	12,051,325	(337,208)	12,278,714
<i>Total Capital Assets, not being depreciated</i>	<u>5,828,233</u>	<u>12,051,325</u>	<u>(337,208)</u>	<u>17,542,350</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	102,896	0	0	102,896
Buildings and Improvements	92,005,663	223,718	0	92,229,381
Furniture and Equipment	39,654,301	1,558,711	(2,067,645)	39,145,367
Vehicles	6,449,583	295,719	(53,598)	6,691,704
<i>Total Capital Assets, being depreciated</i>	<u>138,212,443</u>	<u>2,078,148</u>	<u>(2,121,243)</u>	<u>138,169,348</u>
Less Accumulated Depreciation:				
Land Improvements	(5,574)	(5,145)	0	(10,719)
Buildings and Improvements	(50,048,777)	(1,216,212)	0	(51,264,989)
Furniture and Equipment	(34,001,281)	(1,394,671)	2,058,484	(33,337,468)
Vehicles	(5,574,264)	(451,448)	53,598	(5,972,114)
Total Accumulated Depreciation	<u>(89,629,896)</u>	<u>(3,067,476)</u> *	<u>2,112,082</u>	<u>(90,585,290)</u>
Total Capital Assets, being depreciated, net	<u>48,582,547</u>	<u>(989,328)</u>	<u>(9,161)</u>	<u>47,584,058</u>
Governmental Activities Capital Assets, Net	<u>\$54,410,780</u>	<u>\$11,061,997</u>	<u>(\$346,369)</u>	<u>\$65,126,408</u>

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

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,355,930
Special	51,705
Vocational	351,448
Adult/Continuing	10,546
Support Services:	
Pupil	160,165
Instructional Staff	150,714
Board of Education	1,029
Administration	27,221
Fiscal	1,146
Business	87,098
Operation and Maintenance of Plant	179,558
Pupil Transportation	251,846
Central	235,683
Operation of Non-Instructional Services	29,552
Extracurricular Activities	17,507
Food Service Operations	<u>156,328</u>
 Total Depreciation Expense	 <u><u>\$3,067,476</u></u>

Note 11 - 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 2005, 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 (\$50,000 deductible)	\$100,000,000
Boiler and Machinery (\$5,000 deductible)	100,000,000
Automobile Liability (\$10,000 deductible)	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.

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

The School District began participating in the Ohio Bureau of Workers' Compensation Retrospective Rating Plan (the "Plan") for calendar year 2004. This Plan involves the payment of: (1) a minimum premium to cover safety and hygiene costs, surplus costs, premium payment security costs, and the costs of losses exceeding the per claim and the maximum premium limitations; (2) a premium based on covered claims for up to ten years; and, (3) a premium based on reserves for evaluated claims at the end of the tenth year.

The Plan is funded by charging each fund a percentage of payroll during the period. As the Plan bills the School District based on a calendar year rather than a fiscal year only changes in the claims liability for the current fiscal year are available. Future financial statements will reflect two fiscal years of activity.

Fiscal Year	Beginning Balance	Current Fiscal Year Premium/ Claims	Premium/ Claims Payments	Ending Balance
2005	\$1,499,771	\$1,101,829	\$1,146,105	\$1,455,495

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 \$4,098,132 reported in the self-insurance internal service fund at June 30, 2005 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
2004	\$3,448,895	\$32,951,536	\$32,299,703	\$4,100,728
2005	4,100,728	33,671,260	33,673,856	4,098,132

Note 12 – 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.

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

Plan members are required to contribute 10 percent of their annual covered salary, and the School District is required to contribute 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$4,008,556, \$3,426,010 and \$2,938,506, respectively; 58.44 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

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.

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, 2005, 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.

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$18,903,013, \$19,070,211, and \$18,517,776, respectively; 84.64 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$88,338 made by the School District and \$241,202 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, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - 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.

STRS Ohio retirees who participated in the DB or Combined Plans and their 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. All 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, 2005, 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 \$1,454,078 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), 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, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established as \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$1,888,835.

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

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 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 - 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 15 – 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, 2005:

Fiscal Year Ending June 30,	Governmental Activities
2006	271,500
2007	267,270
Total	538,770
Less: Amount Representing Interest	(44,603)
Present Value of Net Minimum Lease Payments	\$494,167

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

Note 16 - 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 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005	Amount Due in One Year
1988 \$141,533 0% Asbestos Loan	\$27,520	\$0	(\$7,863)	\$19,657	\$7,863
Capital Leases	713,437	0	(219,270)	494,167	238,651
Compensated Absences	27,798,412	0	(1,729,866)	26,068,546	1,500,502
Total Governmental Activities Long-Term Liabilities	<u>\$28,539,369</u>	<u>\$0</u>	<u>(\$1,956,999)</u>	<u>\$26,582,370</u>	<u>\$1,747,016</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, 2005 are as follows:

	<u>Principal</u>
2006	7,863
2007	7,863
2008	<u>3,931</u>
Total	<u>\$19,657</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, summer intervention, alternative schools, miscellaneous state grants, adult basic education, job training partnership act, title VI-B, vocational education, 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.

Note 17 – 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 \$178,020 were made to move unrestricted balances to support programs and projects accounted for in nonmajor funds. The general fund also transferred \$117,450 to the self-insurance reserve internal service fund to pay for liability insurance claims over the self-insured retention.

The special trust special revenue fund transferred \$2,796 of unclaimed monies to the general fund. These monies were unclaimed for five years, and in accordance with State law, can be transferred to the general fund to be spent for general operating purposes.

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

The adult basic education special revenue fund transferred \$20 to the general fund to return a portion of previous transfer that was not spent.

The head start special revenue fund transferred \$7,801 to the general fund to return a portion of a local match that was not used.

The miscellaneous federal grants special revenue fund transferred \$72,125 to the general fund. This involved the unexpended balances of two grants that closed several fiscal years ago where revenues were in excess of expenditures for services provided to adult students in the Adult Vocational Services program.

The major permanent improvement capital projects fund transferred \$1,448,705 to the classroom maintenance capital projects fund in accordance with State statute to satisfy its local maintenance requirement by earmarking from the proceeds of its existing permanent improvement tax.

In addition, the district managed activities special revenue fund transferred the unexpended balances of the following activities to the general fund due to the termination of the activities: the Class of 2000 at Kenmore High School amounting to \$584, the Class of 2001 at Kenmore High School totaling \$137, Cooperative Office Education at East High School equaling \$2, Administrative Support at East High School amounting to \$23, the Future Homemakers at East High School totaling \$17, Pepsi Challenge at East High School equaling \$55, Character Counts at East High School amounting to \$464, Leadership 2002 at East High School totaling \$195, Leadership 2003 at East High School equaling \$236, Leadership 2004 at East High School amounting to \$55, the German Club at Firestone High School totaling \$48, Office Work Experience at Firestone High School equaling \$3,129, Computer Science at Firestone High School amounting to \$65, the BUS at Firestone High School totaling \$1,626, the Video Club at Firestone High School equaling \$303, National Honor Society at Goodrich Middle School amounting to \$958, the Language Club at Goodrich Middle School totaling \$36, the Class of 2003 at Kenmore High School equaling \$3,123 and the Class of 2004 at Kenmore High School amounting to \$4,636.

Transfers made during the fiscal year ended June 30, 2005 were as follows:

	Transfers From			Total
	General Fund	Permanent Improvement Capital Projects Fund	Nonmajor Funds	
<u>Transfers To</u>				
General Fund	\$0	\$0	\$98,434	\$98,434
Nonmajor Funds	178,020	1,448,705	0	1,626,725
Internal Service	117,450	0	0	117,450
Total	<u>\$295,470</u>	<u>\$1,448,705</u>	<u>\$98,434</u>	<u>\$1,842,609</u>

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

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 2005 on the GAAP basis.

Advanced To	Nonmajor Funds
Post Secondary	\$1,263
Public School Preschool	38,149
Ohio Reads	28,093
Summer Intervention	408,264
Alternative School	18,021
Miscellaneous State Grants	67,517
Adult Basic Education	68,674
Job Training Partnership Act	43,368
Title VI-B	1,351,460
Vocational Education	76,916
Head Start	29,647
Title III - Limited English Proficiency	30,136
Drug-Free Schools	22,387
Preschool Handicapped	27,847
Title II - A	503,969
Miscellaneous Federal Grants	207,957
Ohio Schools Facilities Commission	550,098
Total	\$3,473,766

Note 18 – Jointly Governed Organization

The Ohio Schools Council (“the Council”) is a jointly governed organization among many school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. The Council’s Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information for the Council can be obtained by contacting the Executive Secretary of the Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

In fiscal year 2005, the District participated in the Council’s electric energy program. This program allows school districts to purchase electricity at reduced rates. The participants make monthly payments based on estimated usage. At the end of the fiscal year, these estimated monthly payments are compared to their actual usage and any necessary adjustments are made.

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

Note 19 – 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. Prior reserve amounts were restated to include qualifying disbursements which were erroneously excluded.

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

	<u>Textbooks & Instructional Materials Reserve</u>	<u>Capital Improvements Reserve</u>
Set-aside Reserve Balances as of June 30, 2004 (Restated)	(\$2,305,034)	\$0
Current Fiscal Year Set-aside Requirements	4,330,584	4,330,584
Qualifying Disbursements	<u>(4,324,559)</u>	<u>(9,770,650)</u>
Totals	<u>(\$2,299,009)</u>	<u>(\$5,440,066)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$2,299,009)</u>	<u>\$0</u>

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 20 – 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.

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

Note 21 – Construction Commitments

The School District has active construction projects as of June 30, 2005. At fiscal year end, the School District’s commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Central Learning Center Construction	\$11,613,097	\$78,769
Betty Jane Elementary School Construction	0	24,611
Crouse Elementary School Construction	0	24,611
Judith Resnik Elementary School Construction	147,761	86,274
Forest Hill Elementary School Construction	0	24,611
Glover Elementary School Construction	0	24,611
Sam Salem Elementary School Construction	0	24,611
David Hill Elementary School Construction	421,760	136,405
Helen Arnold Elementary School Construction	84,384	451,134
Mason Elementary School Construction	0	27,360
Ritzman Elementary School Construction	0	24,611
Robinson Elementary School Construction	0	24,611
Voris Elementary School Construction	0	92,610
Jennings Middle School Construction	0	30,293
	<u>\$12,267,002</u>	<u>\$1,075,122</u>

These commitments are being financed entirely with Ohio School Facilities Commission monies and proceeds from a municipal income tax levied by the City.

Note 22 – 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.

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

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 but did not receive any local funds from the City by way of this tax in fiscal year 2005. A liability, "due to City of Akron", was recorded in the amount of \$74,064,889 as of June 30, 2005. 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 using these local funds received from the City during fiscal years 2004 and 2005. The School District made a total of \$11,873,514 in capital expenditures using these local funds received from the City in fiscal years 2004 and 2005. 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, except for the Central Learning Center located at 400 West Market; therefore, the School District recorded 50 percent of the capital expenditures as construction in progress capital assets. This totaled \$1,344,149 for fiscal years 2004 and 2005. The Central Learning Center located at 400 West Market will be owned solely by the School District, which amounted to \$10,934,565 in construction in progress in fiscal year 2005.

The School District received \$6,894,723 in OSFC monies during the 2005 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, \$76,467,365 was recorded as an intergovernmental receivable as of June 30, 2005. On the accrual basis, the entire \$76,467,365 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 2005 fiscal year was recorded as revenue. This amounted to \$1,732,411 for fiscal year 2005. The remaining portion was recorded as deferred revenue.

Note 23 – Akron Digital Academy

A. Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

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

Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

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.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and the School District does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

Cash and Cash Equivalents

During fiscal year 2005, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents

Prepaid Items

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

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

Capital Assets

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 Academy maintains a capitalization threshold of one thousand dollars. The Academy 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over three to five years for furniture and equipment.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2005 to offset start-up costs of the Academy. In addition, the Academy participates in the State Education Management Information System ("EMIS") through the Ohio Department of Education. Under this program, the Academy was awarded \$5,000 during the fiscal year ended June 30, 2005 to offset costs for EMIS reporting. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts received under these programs for the 2005 fiscal year totaled \$3,569,830.

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.

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

B. Deposits and Investments

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was \$3,025 and the bank balance was \$18,881. The entire bank balance was covered by federal depository insurance.

The Academy has no deposit policy for custodial risk.

Investments As of June 30, 2005, the Academy had the following investment:

	Carrying Value	Maturity
Overnight Eurodollars	\$919,745	July 1, 2005

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy has no investment policy that addresses interest rate risk.

The overnight Eurodollars carry a rating of A+ by Standard and Poor's and Aa3 by Moody's Investor Service. The Academy has no investment policy dealing with investment credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The overnight Eurodollars are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Academy's name. The Academy has no investment policy dealing with investment custodial risk.

C. Receivables

Receivables at June 30, 2005 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs. All receivables are expected to be collected within one fiscal year.

D. Capital Assets

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

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital Assets, being depreciated:				
Furniture and Equipment	\$9,474	\$17,555	\$0	\$27,029
Less Accumulated Depreciation:				
Furniture and Equipment	(649)	(4,639)	0	(5,288)
Total Capital Assets, being depreciated, net	\$8,825	\$12,916	\$0	\$21,741

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

E. Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the Academy was covered under the School District's insurance for property, liability, and inland marine coverage.

Settled claims of the School District 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.

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

G. Agreement with the Akron City School District

A service contract for fiscal year 2005 between the Academy and the School District was previously approved. This service contract commenced on July 1, 2002 and ends on June 30, 2005. On April 11, 2005, the Academy and the School District entered into a service contract which commences on July 1, 2005 and ends June 30, 2007 and may be renewed by mutual agreement.

In agreement with this contract, the Academy purchased the following services from the School District: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to the Academy. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the School District related to these services. The Academy reimbursed the School District \$1,445,790 during fiscal year 2005 for these services.

In addition, in accordance with this service contract, the Academy will remit \$1,000 (\$2,000 effective for the new service contract) per each and every pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the School District's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, and legal issues, professional development and training and instructional materials. The Academy paid the School District \$728,000 during fiscal year 2005 for these services.

All personnel providing services to the Academy on behalf of the School District under the service contract are considered employees of the School District, and the School District shall be solely responsible for all payroll functions.

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

For the fiscal year ended June 30, 2005, the Academy paid the School District the following expenses:

Purchased Services Expenses	Amounts
Professional and technical services	\$2,175,611
Communications	35
Utilities	520
Contracted craft or trade services	203
Tuition	3,125
Total Purchased Services Expenses	\$2,179,494
 Materials and Supplies Expenses	 \$311

H. Operating Leases

The Academy leases facilities space and copiers under noncancelable operating leases. Total costs for such leases were \$45,459 for the fiscal year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2006	\$81,391
2007	84,286
2008	16,141
2009	9,946
2010	4,463
Total	\$196,227

I. Contingencies

Grants

The Academy 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 Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

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

Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Common Pleas Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals; the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

J. Federal Tax-Exempt Status

The Academy is a nonprofit corporation that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

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**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

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 EDUCATION						
<i>(Direct)</i>						
Student Financial Assistance Cluster:						
Federal Family Education Loan	84.032	N/A	\$350,990		\$350,990	
Federal Pell Grant Program	84.063	N/A	154,636		154,636	
		N/A	114,786		114,786	
		N/A	165,949		165,949	
Federal Pell Grant Program - Administrative Allowance			785		785	
Total Federal Pell Grant Program			<u>436,156</u>		<u>436,156</u>	
Total Student Financial Assistance Cluster			787,146		787,146	
Federal Crisis Grant	84.184E	N/A	22,267		28,297	
Impact Aid	84.041	N/A	49,724		49,724	
<i>(Passed-through Ohio Department of Education)</i>						
Adult Education - State Grant Program	84.002	043489-AB-S1-2005	292,835		368,234	
		043489-AB-S1-2004	0		20	
Total Adult Education-State Grant Program			<u>292,835</u>		<u>368,254</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	043489-6B-SF-2005	4,353,306		5,660,585	
		043489-6B-SD-2005	9,407		11,213	
		043489-6B-SD-2005	9,415		11,222	
		043489-6B-SD-2005	19,832		29,506	
		043489-6B-SA-2005	29,368		44,486	
		043489-6B-SD-2005	37,537		49,570	
		043489-6B-SD-2005	36,108		50,000	
		043489-6B-PB-2005	18,416		22,791	
		043489-6B-SF-2004	603,973		783,477	
		043489-6B-SD-04P	4,165		0	
		043489-6B-SD-04P	1,103		28	
		043489-6B-SD-04P	8,770		629	
		043489-6B-SA-04P	21,292		13,806	
Total Special Education Grants to States			<u>5,152,692</u>		<u>6,677,313</u>	
Special Education Preschool Grants	84.173	043489-PG-S1-2005	155,547		185,910	
		043489-PG-S1-2004	12,043		3,621	
Total Special Education Preschool Grants			<u>167,590</u>		<u>189,531</u>	
Total Special Educational Cluster			5,320,282		6,866,844	
Vocational Education-Basic Grants to State	84.048	043489-20-C1-2005	708,248		793,426	
		043489-20-C2-2005	127,308		125,476	
		CDPIII-S04-095	235,925		25,296	
		VECDPIII-A-2004-095	0		4,761	
Total Vocational Education-Basic Grants to State			<u>1,071,481</u>		<u>948,959</u>	
Tech-Prep Education:						
Project Lead The Way-Firestone	84.243	0011692VETP03PLTW3	13,917		1,685	
Project Lead The Way-Garfield		013128VETO03PLTW4	13,900		19	
Total Tech-Prep Education			<u>27,817</u>		<u>1,704</u>	
Title I Grants to Local Educational Agencies	84.010	043489-C1-S1-2005	14,221,526		13,337,420	
Title I Grants to Local Educational Agencies		Title I Delinquent	39,712		0	
Title I Grants to Local Educational Agencies		043489-C1-S1-04	16,016		930,130	
Title I Grants to Local Educational Agencies		043489-C1-SK-05	100,000		100,000	
School Improvement Title I		043489-C1-SK-05	243,564		103,439	
School Improvement Title I		043489-C1-SK-03	186,000		219,572	
Total Title I Grants			<u>14,806,818</u>		<u>14,690,561</u>	
Twenty First Century Community Learning Centers	84.287	043489-T1-S1-05	241,312		292,730	
		043489-T1-S1-05	390,122		457,455	
	84.287c	043489-T1-S1-04	49,912		68,412	
Total Twenty-First Century Community Learning Centers			<u>681,346</u>		<u>818,597</u>	
Comprehensive School Reform Demonstration	84.332	043489-RF-CC-2005	64,556		16,237	
		043489-RF-K2-2004	13,517		15,248	
		043489-RF-K2-03	11,016		11,016	
		043489-RF-K1-03	0		4,448	
Total Comprehensive School Reform Demonstration			<u>89,089</u>		<u>46,949</u>	

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

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-S1-2005	\$117,309		\$128,983	
		043489-HC-SP-2004	30,400		30,400	
		043489-HC-S1-04	12,418		2,229	
Total Education for Homeless Children and Youth			160,127		161,612	
State Grants for Innovative Programs	84.298	043489-C2-S1-2005	196,578		196,309	
		043489-C2-S1-04	52,060		10,787	
Total State Grants for Innovative Programs			248,638		207,096	
English Language Acquisition Grant						
Title III LEP	84.365	043489-T3-S1-2005	73,280		102,344	
Title III LEP		043489-T3-S1-2004	22,602		6,111	
Title III Immigrant		043489-T3-S2-2005	12,496		14,488	
Title III Immigrant		043489-T3-S2-2004	23,506		3,202	
Total English Language Acquisition Grant			131,884		126,145	
Refugee and Entrant Assistance Discretionary Grants	93.576	043489-RI-S1-2005	6,300		0	
		N/A	0		3,409	
		N/A	0		15,300	
		N/A	0		2,613	
Total Refugee Entrant Assistance Discretionary Grants			6,300		21,322	
Improving Teacher Quality State Grants	84.367	043489-TR-S1-2005	2,351,611		2,876,508	
		043489-TR-S1-04	92,070		111,759	
Total Improving Teacher Quality State Grants			2,443,681		2,988,267	
Safe and Drug Free School Community Service Grant	84.184C	043489-T4-S1-04-102	6,311		6,879	
		043489-T4-S1-05P-102	1,250		0	
Total Safe and Drug Free School Community Service Grant			7,561		6,879	
Safe and Drug-Free Schools and Communities--State Grants	84.186	043489-DR-S1-05	242,269		268,314	
		043489-DR-S1-04	3,344		1,472	
Total Safe and Drug-Free Schools and Communities - State Grants			245,613		269,786	
Education Technology State Grant	84.318	043489-TJ-S1-05	357,658		362,088	
		043489-TJ-S1-04	153,924		218,036	
Total Education Technology State Grant			511,582		580,124	
Reading First State Grants	84.357	043489-RS-S1-05	574,691		663,690	
<i>(Passed through University of Akron)</i>						
Tech Prep Consortium Grant for EMT/Firefighter Training	84.049	N/A	0		579	
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>27,476,882</u>		<u>29,632,535</u>	
U.S. DEPARTMENT OF LABOR						
<i>(Passed through County of Summit)</i>						
WIA Youth Activities	17.259	N/A	331,844		377,199	
			31,214		(51,268)	
Total WIA Youth Activities			363,058		325,931	
TOTAL U.S. DEPARTMENT OF LABOR			<u>363,058</u>		<u>325,931</u>	
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	3,049,021		3,049,021	
<i>(Passed through Ohio Department of Education)</i>						
State Children's Health Insurance Program	93.767	N/A	255,687		255,687	
<i>(Passed through Akron Summit Community Action Agency)</i>						
Head Start	93.600	PA-22-02-04	576,855		20,838	
		PA-22-02-04	5,158		911	
Total Head Start			582,013		21,749	
<i>(Passed through the County of Summit)</i>						
Adult Education - State Grant Program	84.002	N/A	453,909		453,909	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>4,340,631</u>		<u>3,780,366</u>	

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

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 University of Akron)</i>						
Juvenile Justice and Delinquency - Allocation to States	16.540	2004-JJ-CP1-0062	\$0		\$1,964	
		2003-JJ-CP1-0062	0		28,639	
		2002-JJ-CP1-0062	21,290		1,542	
Total Juvenile Justice and Delinquency - Allocation to States			21,290		32,145	
TOTAL U.S. DEPARTMENT OF JUSTICE						
			21,290		32,145	
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Donation	10.550	N/A		\$752,493		\$754,301
School Breakfast Program	10.553	N/A	1,700,064		1,700,064	
National School Lunch Program	10.555	N/A	6,080,216		6,080,216	
Total Child Nutrition Cluster			7,780,280	752,493	7,780,280	754,301
TOTAL U.S. DEPARTMENT OF AGRICULTURE						
			7,780,280	752,493	7,780,280	754,301
U.S. DEPARTMENT OF DEFENSE						
<i>(Direct)</i>						
Air Force R.O.T.C. Grant	12.XXX		47,994		47,994	
Army R.O.T.C. Grant	12.XXX		67,633		67,633	
Marines R.O.T.C. Grant	12.XXX		40,797		40,797	
Navy R.O.T.C. Grant	12.XXX		41,267		41,267	
Total R.O.T.C Grants			197,691		197,691	
TOTAL U.S. DEPARTMENT OF DEFENSE						
			197,691		197,691	
TOTALS						
			\$40,181,832	\$752,493	\$41,748,948	\$754,301

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

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (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 non-monetary 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, the discretely presented component unit, 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine 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 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 and Questioned Costs as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated January 30, 2006, we reported other matters involving internal control over financial reporting which we did not deem to be reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 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 and Questioned Costs as item 2005-002. In a separate letter to the District's management dated January 30, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 30, 2006



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 apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Akron Digital Academy, which received \$99,163 in federal awards which is not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2005. Our audit of Federal awards, described below, did not include the operations of Akron Digital Academy because the component unit expended less than \$500,000 of Federal awards for the year ended June 30, 2005 and was not subject to OMB Circular A-133 audit requirements.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-003 through 2005-005.

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In a separate letter to the District's management dated January 30, 2006, we reported other matters related to federal noncompliance not included in this report.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 30, 2006.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 30, 2006

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Pell Grant Program (CFDA 84.063); Federal Family Education Loan Program (CFDA 84.032); Medicaid Assistant Program (CFDA 93.778); 21 st Century Community Learning Centers (CFDA 84.287); Special Education Cluster (CFDA 84.027 & 84.173)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 1,275,098 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

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.

FINDING NUMBER 2005-002

Material Noncompliance

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 expenses of another fund.

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

FINDING NUMBER 2005-002 (Continued)

Throughout fiscal year 2005, certain funds incurred negative cash fund balances as follows:

Fund	Oct-04	Dec-04	Mar-05	Jun-05
Rotary - 014	(\$152,304)	(\$419,716)	(\$370,261)	n/a
Agency - 022	(1,168,268)	n/a	n/a	n/a
Post Secondary - 413	(3,660)	(3,842)	(2,185)	(\$1,263)
Professional Development - 416	(114,909)	(2,386)	(61,055)	n/a
Public School Preschool - 439	n/a	n/a	(38,358)	(39,665)
Ohio Reads - 459	n/a	n/a	n/a	(30,213)
Summer Invention - 460	n/a	(126,472)	(104,756)	(418,365)
Career Supp Equipment - 461	n/a	n/a	(34,328)	n/a
Alternative School - 463	(57,697)	n/a	(21,836)	(20,032)
Ohio Schools Facility - 496	(550,098)	(550,098)	(550,098)	(550,098)
Misc. State Grants - 499	n/a	n/a	n/a	(71,285)
Adult Basic Education - 501	n/a	n/a	(78,683)	(75,400)
JTPA - 502	(248,543)	(304,291)	(374,837)	(46,637)
Title VIB - 516	n/a	(249,991)	(863,379)	(1,403,501)
Vocational Education - 524	(203,622)	(166)	(1,066)	(83,346)
Head Start - 525	(170,875)	(22,199)	(22,199)	(30,000)
Title III – LEP - 551	n/a	(885)	(5,317)	(31,056)
Title I - 572	(1,348,725)	(1,185,471)	(560,225)	n/a
Title VI - 573	(25,401)	(5,581)	(7,371)	n/a
Drug Free - 584	(42,426)	(13,978)	(44,159)	(26,045)
Preschool Grant - 587	(14,073)	(6,060)	(21,439)	(30,363)
Title II – A - 590	(360,697)	(331,998)	(280,706)	(524,897)
Misc. Federal Grants - 599	(52,187)	(109,178)	(281,010)	(216,959)

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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Stafford Loans

Finding Number	2005-003
CFDA Title and Number	CFDA # 84.032 Federal Family Education Loan Program
Federal Award Number / Year	2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	N/A

Questioned Cost

34 CFR 682.204 states that the total amount the student may borrow for any academic year of study under the Stafford Loan Program may not exceed \$2,625 (34 CFR 682.204(a)(i)) in subsidized loans for a program of study of at least one full academic year in length. A student may also receive an unsubsidized loan for the amount that is the difference between the subsidized amount for which he or she was eligible and the unsubsidized amount that he or she received up to a maximum of \$4,000 (34 CFR 682.204(d)(1)(i)).

Three of the 20 students tested received excess Title IV funds in the form of subsidized and unsubsidized loans in the amount of \$4,519 (or a projected error of \$16,964) and is being reported as a federal questioned cost.

The School of Practical Nursing should review the federal policies and procedures manual to ensure that the proper amounts of funds are awarded to each student.

2. 21st Century Grant

Finding Number	2005-004
CFDA Title and Number	CFDA # 84.287 21 st Century Community Learning Centers
Federal Award Number / Year	2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	State of Ohio Department of Education

Noncompliance

34 CFR Sections 200.62 through 200.67 state that a State Educational Agency, a Local Educational Agency, or any other educational service agency (or consortium of such agencies) receiving financial assistance must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under these programs. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

2005-004 (Continued)

The District did not consult with private school officials in regards to the 21st Century Community Learning Centers grant. No private schools participated in the 21st Century grant programs for fiscal year 2005. Failure to provide and document timely and meaningful consultations with private school officials could lead to a loss of funding for the affected grants. Timely and meaningful consultations should be held with private school officials. Documentation should be maintained regarding the consultations. In addition, documentation should be maintained of private school's desire to not participate in the federal funded program. This documentation should contain the signature of the private school official.

3. 21st Century Grant

Finding Number	2005-005
CFDA Title and Number	CFDA # 84.287 21 st Century Community Learning Centers
Federal Award Number / Year	2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	State of Ohio Department of Education

Noncompliance

Ohio Department of Education 21st Century Community Learning Center Application Guide states that programs must operate at least 15 hours a week for elementary school children and at least 10 hours a week for middle school children. The District holds six programs for elementary school children. However, the programs are operated for only 12 hours a week.

The District should either increase the number of hours of operation with the programs or obtain a waiver of this requirement in order to ensure that the District is in compliance with the requirements stipulated by the Ohio Department of Education.

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.10 – Negative cash fund balances.	No	Repeated as item 2005-002
2004-002	One of the District's Service Organizations did not obtain a Type 2 SAS 70 report.	No	Repeated as item 2005-001

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2005**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-003	Review the federal policies and procedures manual to ensure award amounts are calculated correctly and investigate a software program for calculating award amounts.	12/31/06	Marilyn Barkley
2005-004	Contact the private schools to determine participation or contact the grantor for a waiver to this requirement.	6/30/06	Desiree Bolden
2005-005	Request a waiver to this requirement or increase number of hours.	6/30/06	Desiree Bolden



**Auditor of State
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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 21, 2006**