



**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Akron City School District, Summit County, (the District) as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Akron City School District, Summit County, as of June 30, 2002, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Additionally, the District restated certain fund balances as of June 30, 2001 as a result of reclassifying Enterprise Funds to Special Revenue Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 14, 2003

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

This 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, 2002. 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, 2002 are as follows:

- Total net assets increased \$1.7 million. This is a 3.4% increase from fiscal year 2001.
- Total revenues of \$301.0 million were comprised of general revenues of \$218.0 million or 72.4% and program revenues of \$83.0 million or 27.6%.
- Total program expenses totaled \$299.3 million.
- Outstanding debt decreased to \$2.1 million from \$4.9 million in fiscal year 2001.

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. For the Akron City School District, the general fund is by far the most significant fund.

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 2002?" 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.

Akron City School District
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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. Non-financial 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 8. 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 only major governmental fund is the general fund.

Governmental Funds – All of the School District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future fiscal years. These funds are reported using a basis of accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationships (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* are reconciled in the 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 2002 compared to fiscal year 2001 as follows:

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

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

	Governmental Activities	
	2002	2001
Assets		
Current and Other Assets	\$163.6	\$138.0
Capital Assets, Net	36.5	39.5
<i>Total Assets</i>	200.1	177.5
Liabilities		
Current and Other Liabilities	122.5	104.2
Long-Term Liabilities:		
Due Within One Year	6.8	2.3
Due in More than One Year	19.5	21.5
<i>Total Liabilities</i>	148.8	128.0
Net Assets		
Invested in Capital Assets, Net of Debt	35.3	39.5
Restricted:		
Capital Projects	8.1	6.8
Debt Service	0.1	0.0
Set Asides	0.5	1.9
Other Purposes	13.1	10.8
Unrestricted	(5.9)	(9.5)
<i>Total Net Assets</i>	\$51.2	\$49.5

Total assets increased \$22.6 million. Taxes receivable increased \$21.5 million and totaled \$111.7 million; of this amount, \$106.4 million is offset as deferred revenue, revenue to be used in future periods. Taxes receivable and deferred revenue increased due to the passage of a new levy in November of 2001. Collections from this levy began in January of 2002. However, full collection of this new 8.9 mill levy, yielding \$23.7 million annually, will not occur until fiscal year 2003. Equity in pooled cash and cash equivalents increased \$4.3 million with the majority of the increase in the general fund. The increase in equity in pooled cash and cash equivalents in the general fund is also attributed to the passage of this new levy. The increases in taxes receivable and cash and cash equivalents are offset by decreases in intergovernmental receivable of \$1.4 million and capital assets of \$3.0 million.

Total liabilities increased \$20.8 million. The increase was the result of long-term liabilities increasing by \$2.5 million and other liabilities increasing by \$18.3 million. The other liabilities increase was primarily the result of increased deferred revenue of \$22.4 million.

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The net impact was an increase of net assets of \$1.7 million. This is due to the partial collection of the new tax levy and is anticipated to increase further with the full collection.

The vast majority of revenues supporting governmental activities are general revenues. General revenues totaled \$218.0 million or 72.4% of revenues supporting governmental activities. Program revenues for governmental activities totaled \$83.0 million or 27.6%.

Table 2 shows the change in net assets for fiscal year 2002. Since this is the first year the School District has prepared basic financial statements following Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, revenue and expense comparisons to fiscal year 2001 are not available. In future fiscal years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

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

	2002
Revenues	
<i>Program Revenues:</i>	
Charges for Services and Sales	\$6.3
Operating Grants, Contributions and Interest	73.8
Capital Grants and Contributions	2.9
<i>Total Program Revenues</i>	83.0
<i>General Revenues:</i>	
Property Taxes	93.7
Grants and Entitlements	118.2
Interest	1.5
Miscellaneous	4.6
<i>Total General Revenues</i>	218.0
<i>Total Revenues</i>	\$301.0

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

<i>Program Expenses:</i>	
Instruction	\$173.0
Support Services:	
Pupil and Instructional Staff	36.5
Board of Education, Administration,	
Fiscal and Business	26.4
Operation and Maintenance	33.1
Pupil Transportation	6.5
Central	6.9
Operation of Non-Instructional Services	3.4
Extracurricular Activities	3.2
Food Service Operations	9.6
Debt Services	0.7
<i>Total Program Expenses</i>	299.3
Increase in Net Assets	\$1.7

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 31.2% of total revenues for governmental activities for the Akron City School District in fiscal year 2002.

Instruction comprised 57.8% of governmental program expenses. Pupil and instructional staff support services comprised 12.2% of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges of services and grants offsetting those services. Table 3 below 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. Comparisons to fiscal year 2001 have not been made since they are not available.

Akron City School District
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Table 3
(In Millions)

	Total Cost of Services 2002	Net Cost of Services 2002
Instruction	\$173.0	\$123.5
Support Services:		
Pupil and Instructional Staff	36.5	23.9
Board of Education, Administration, Fiscal and Business	26.4	24.7
Operation and Maintenance of Plant	33.1	31.8
Pupil Transportation	6.5	4.4
Central	6.9	5.1
Operation of Non-Instructional Services	3.4	0.2
Extracurricular Activities	3.2	2.0
Food Service Operations	9.6	0.0
Debt Services	0.7	0.7
<i>Total Expenses</i>	\$299.3	\$216.3

The dependence upon general revenues for governmental activities is apparent. Over 72.3% of governmental activities are supported through taxes and other general revenues; such revenues are 72.4% 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 fund begins on page 14. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$296.6 million and expenditures of \$294.6 million. The net change in fund balances for the fiscal year was an increase of \$2.1 million for all governmental funds with most significant increase in the general fund. The general fund's net change in fund balances for fiscal year 2002 was an increase of \$2.8 million. As previously discussed, the School District received voter approval for an 8.9 mill operating levy in November of 2001. This new tax revenue, which was partially received in fiscal year 2002, will be fully realized in fiscal year 2003.

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For the Fiscal Year Ended June 30, 2002
Unaudited

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 2002, 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.

For the general fund, the final budget basis revenue was \$226.7 million representing a \$15.6 million increase from the original budget estimate of \$211.1 million. Most of this difference was due to the passage of a new 8.9 mill levy in November of 2001, as previously discussed. This new tax revenue was only partially received in fiscal year 2002 and was not considered when original budget estimates were determined. Full collection of this levy will not occur until fiscal year 2003, yielding \$23.7 million annually.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$227.7 million, \$1.0 million above actual revenues. A beginning fund balance of \$13.8 million was used to cover this deficiency of revenues under expenditures in the general fund. In addition, as previously discussed, the School District received voter approval for an 8.9 mill operating levy in November of 2001. This new tax revenue, which was partially received in fiscal year 2002, will be fully realized in fiscal year 2003.

The School District's ending unobligated cash balance was \$5.4 million above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002, the School District had \$36.5 million invested in land, buildings, equipment and vehicles. Table 4 shows fiscal year 2002 balances compared to fiscal year 2001 as follows:

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

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Land	\$5.3	\$5.3
Buildings and Improvements	22.9	24.3
Furniture and Equipment	7.0	8.0
Vehicles	1.3	1.9
Totals	<u>\$36.5</u>	<u>\$39.5</u>

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Management's Discussion and Analysis
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The decrease is due to recognizing \$4.3 million in depreciation expense in fiscal year 2002. The largest decline in value was in furniture and equipment. For further information on capital assets see Note 9 of the notes to the basic financial statements.

Debt Administration

At June 30, 2002, the School District had \$2.1 million in debt outstanding, all due within one year. Table 5 summarizes notes outstanding as follows:

Table 5
 Outstanding Debt at June 30,
 (In Millions)

	Governmental Activities	
	2002	2001
School Foundation Notes Payable	\$2.1	\$4.9

The school foundation notes will be repaid with State foundation revenue. The proceeds of these notes were used for general operating purposes. These notes will be fully repaid in fiscal year 2003.

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, 2002 is \$43,246. The loan was issued for a 20 fiscal year period with final maturity during fiscal year 2008.

At June 30, 2002, the School District's overall legal debt margin was \$239.8 million with an unvoted debt margin of \$2.7 million. For further information on debt obligations see Note 15 and Note 16 of the notes to the basic financial statements.

For the Future

While the School District was successful in increasing its tax revenue base by \$23.7 million annually, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus, 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..."

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
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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 continues to carefully and prudently plan to provide the resources to meet student needs over the next several years.

Contacting the School District's Management

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

Akron City School District

Statement of Net Assets

June 30, 2002

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$40,063,581
Cash and Cash Equivalents in Segregated Accounts	4,170,956
Accounts Receivable	37,964
Intergovernmental Receivable	6,603,115
Taxes Receivable	111,737,992
Inventory Held for Resale	359,552
Materials and Supplies Inventory	609,341
Nondepreciable Capital Assets	5,263,636
Depreciable Capital Assets, Net	<u>31,214,065</u>
<i>Total Assets</i>	<u>200,060,202</u>
Liabilities	
Accounts Payable	2,378,196
Deferred Revenue	106,372,189
Intergovernmental Payable	8,212,479
State Foundation Note Payable	2,109,063
Claims Payable	3,420,692
Long-Term Liabilities:	
Due Within One Year	6,775,243
Due in More Than One Year	<u>19,571,181</u>
<i>Total Liabilities</i>	<u>148,839,043</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	35,334,455
Restricted for:	
Capital Projects	8,151,198
Debt Service	65,657
Set Asides	468,997
Other Purposes	13,114,220
Unrestricted (Deficit)	<u>(5,913,368)</u>
<i>Total Net Assets</i>	<u><u>\$51,221,159</u></u>

See accompanying notes to the basic financial statements

Akron City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Program Revenues			Net (Expenses)	
	Expenses	Charges for Services and Sales	Operating Grants Contributions, and Interest	Revenues and Changes in Net Assets	
Governmental Activities			Capital Grants and Contributions	Governmental Activities	
Instruction:					
Regular	\$135,088,153	\$791,945	\$27,893,216	\$1,629,557	(\$104,773,435)
Special	24,748,824	177,811	14,694,100	0	(9,876,913)
Vocational	10,701,675	3,641	2,261,331	167,865	(8,268,838)
Adult/Continuing	2,435,958	643,680	1,177,177	0	(615,101)
Support Services:					
Pupil	16,532,213	77,105	4,399,448	0	(12,055,660)
Instructional Staff	19,921,199	62,679	7,843,689	194,400	(11,820,431)
Board of Education	80,093	0	0	0	(80,093)
Administration	19,340,356	355,848	894,706	0	(18,089,802)
Fiscal	3,417,011	471	418,781	0	(2,997,759)
Business	3,587,577	0	14,189	0	(3,573,388)
Operation and Maintenance of Plant	33,140,029	143,431	1,171,411	0	(31,825,187)
Pupil Transportation	6,507,480	126,777	2,012,087	0	(4,368,616)
Central	6,889,803	5,267	866,723	882,547	(5,135,266)
Operation of Non-Instructional Services	3,365,163	20,390	3,139,147	0	(205,626)
Extracurricular Activities	3,200,238	1,228,073	22,686	0	(1,949,479)
Food Service Operations	9,579,853	2,662,907	6,960,487	0	43,541
Interest and Fiscal Charges	752,640	0	0	0	(752,640)
Total Governmental Activities	\$299,288,265	\$6,300,025	\$73,769,178	\$2,874,369	(216,344,693)
General Revenues					
Property Taxes Levied for:					
					89,122,128
					7,863
					4,617,273
					118,201,617
					1,482,199
					4,572,112
					218,003,192
					Change in Net Assets 1,658,499
					<i>Net Assets Beginning of Year (See Note 3)</i> 49,562,660
					Net Assets End of Year \$51,221,159

See accompanying notes to the basic financial statements

Akron City School District

Balance Sheet

Governmental Funds

June 30, 2002

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$20,350,737	\$19,243,847	\$39,594,584
Cash and Cash Equivalents In Segregated Accounts	0	258,162	258,162
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	468,997	0	468,997
Taxes Receivable	106,759,956	4,978,036	111,737,992
Accounts Receivable	34,611	3,353	37,964
Intergovernmental Receivable	298,875	6,304,240	6,603,115
Interfund Receivable	1,259,258		1,259,258
Materials and Supplies Inventory	609,341	0	609,341
Inventory Held for Resale	0	359,552	359,552
<i>Total Assets</i>	<u>\$129,781,775</u>	<u>\$31,147,190</u>	<u>\$160,928,965</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$995,903	\$1,376,129	\$2,372,032
Interfund Payable	0	1,259,258	1,259,258
Intergovernmental Payable	5,005,370	1,123,541	6,128,911
Deferred Revenue	103,393,566	10,086,454	113,480,020
School Foundation Note Payable	2,109,063	0	2,109,063
<i>Total Liabilities</i>	<u>111,503,902</u>	<u>13,845,382</u>	<u>125,349,284</u>
Fund Balances			
Reserved for Encumbrances	380,732	4,309,897	4,690,629
Reserved for Property Taxes	3,366,390	156,252	3,522,642
Reserved for Budget Stabilization	468,997	0	468,997
Undesignated, Reported in:			
General Fund	14,061,754	0	14,061,754
Special Revenue Funds	0	9,728,295	9,728,295
Debt Service Funds	0	65,657	65,657
Capital Projects Funds	0	3,041,707	3,041,707
<i>Total Fund Balances</i>	<u>18,277,873</u>	<u>17,301,808</u>	<u>35,579,681</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$129,781,775</u>	<u>\$31,147,190</u>	<u>\$160,928,965</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, 2002*

Total Governmental Funds Balances \$35,579,681

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 36,477,701

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:

Deferred Revenue	5,264,670	
Delinquent Property Taxes	1,843,161	
Total		7,107,831

One internal service fund is used by management to charge
 the costs of insurance to individual funds. The assets
 and liabilities of the internal service fund are included
 in governmental activities in the statement of net assets. 485,938

Intergovernmental payable includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (2,083,568)

Long-term liabilities, including 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	(25,203,178)	
Loans Payable	(43,246)	
Capital Leases Payable	(1,100,000)	
Total		(26,346,424)

Net Assets of Governmental Activities \$51,221,159

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, 2002

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$90,005,025	\$4,693,039	\$94,698,064
Intergovernmental	133,761,992	55,652,275	189,414,267
Interest	1,292,842	355,584	1,648,426
Tuition and Fees	771,765	935,993	1,707,758
Extracurricular Activities	0	1,561,209	1,561,209
Rentals	112,278	0	112,278
Charges for Services	1,166,067	2,662,907	3,828,974
Contributions and Donations	2,551	0	2,551
Miscellaneous	2,104,915	1,554,452	3,659,367
<i>Total Revenues</i>	<u>229,217,435</u>	<u>67,415,459</u>	<u>296,632,894</u>
Expenditures			
Current:			
Instruction:			
Regular	104,896,704	27,351,921	132,248,625
Special	20,465,997	4,136,756	24,602,753
Vocational	10,277,364	250,982	10,528,346
Adult/Continuing	218,830	1,893,296	2,112,126
Support Services:			
Pupil	14,229,925	2,235,789	16,465,714
Instructional Staff	11,880,089	7,741,594	19,621,683
Board of Education	79,858	0	79,858
Administration	18,018,786	1,355,580	19,374,366
Fiscal	3,021,827	389,187	3,411,014
Business	3,598,176	13,586	3,611,762
Operation and Maintenance of Plant	25,857,684	1,250,530	27,108,214
Pupil Transportation	5,647,663	547,703	6,195,366
Central	4,802,929	881,148	5,684,077
Operation of Non-Instructional Services	208,695	3,092,342	3,301,037
Extracurricular Activities	2,036,030	1,157,646	3,193,676
Food Service Operations	0	9,134,934	9,134,934
Capital Outlay	260,746	6,885,987	7,146,733
Debt Service:			
Principal Retirement	518,752	7,863	526,615
Interest and Fiscal Charges	233,888	0	233,888
<i>Total Expenditures</i>	<u>226,253,943</u>	<u>68,326,844</u>	<u>294,580,787</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,963,492</u>	<u>(911,385)</u>	<u>2,052,107</u>
Other Financing Sources (Uses)			
Inception of Capital Lease	39,665	0	39,665
Transfers In	5,771	243,181	248,952
Transfers Out	(237,862)	(11,090)	(248,952)
<i>Total Other Financing Sources (Uses)</i>	<u>(192,426)</u>	<u>232,091</u>	<u>39,665</u>
<i>Net Change in Fund Balances</i>	2,771,066	(679,294)	2,091,772
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>15,506,807</u>	<u>17,981,102</u>	<u>33,487,909</u>
<i>Fund Balances End of Year</i>	<u>\$18,277,873</u>	<u>\$17,301,808</u>	<u>\$35,579,681</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, 2002*

Net Change in Fund Balances -Total Governmental Funds	\$2,091,772
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*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	2,252,815
Current Year Depreciation	<u>(4,330,186)</u>
Total	(2,077,371)
Governmental Funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(914,527)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Delinquent Taxes	(1,024,285)
Grants	<u>5,338,155</u>
Total	4,313,870
Repayment of loan and capital leases are expenditures governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	526,615
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	(39,665)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences	(3,047,623)
Pension Obligations	<u>(208,578)</u>
Total	(3,256,201)
The internal service fund 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 service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities.	<u>1,014,006</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,658,499</u></u>

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, 2002

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$82,842,879	\$87,685,465	\$89,914,192	\$2,228,727
Intergovernmental	122,870,215	130,013,488	131,244,029	1,230,541
Interest	1,653,353	1,750,000	1,321,198	(428,802)
Tuition and Fees	1,441,269	1,525,519	825,500	(700,019)
Rentals	114,358	121,043	112,278	(8,765)
Charges for Services	955,161	955,161	1,175,509	220,348
Contributions and Donations	2,934	3,105	2,551	(554)
Miscellaneous	1,175,268	1,243,968	2,107,696	863,728
<i>Total Revenues</i>	<u>211,055,437</u>	<u>223,297,749</u>	<u>226,702,953</u>	<u>3,405,204</u>
Expenditures				
Current:				
Instruction:				
Regular	105,811,242	106,218,760	105,927,534	291,226
Special	20,462,849	20,511,727	20,331,542	180,185
Vocational	10,273,203	10,297,742	10,258,272	39,470
Adult	219,919	220,444	218,945	1,499
Support Services:				
Pupils	14,536,597	14,571,319	14,475,458	95,861
Instructional Staff	12,057,885	12,086,687	11,978,184	108,503
Board of Education	114,759	115,033	102,119	12,914
Administration	18,233,688	18,277,241	18,048,155	229,086
Fiscal	3,058,767	3,066,073	3,047,053	19,020
Business	4,084,928	4,094,685	3,872,943	221,742
Operation and Maintenance of Plant	26,483,411	26,546,669	26,265,228	281,441
Pupil Transportation	6,007,151	6,021,500	5,779,018	242,482
Central	5,042,026	5,054,069	4,973,639	80,430
Operations of Non-Instructional Services	230,496	231,047	213,050	17,997
Extracurricular Activities	2,233,036	2,238,370	2,068,536	169,834
Capital Outlay	162,612	163,000	151,922	11,078
<i>Total Expenditures</i>	<u>229,012,569</u>	<u>229,714,366</u>	<u>227,711,598</u>	<u>2,002,768</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(17,957,132)</u>	<u>(6,416,617)</u>	<u>(1,008,645)</u>	<u>5,407,972</u>
Other Financing Sources (Uses)				
Advances In	4,845,372	4,845,372	4,845,372	0
Transfers In	0	0	5,771	5,771
Transfers Out	0	(240,000)	(237,862)	2,138
<i>Total Other Financing Sources (Uses)</i>	<u>4,845,372</u>	<u>4,605,372</u>	<u>4,613,281</u>	<u>7,909</u>
<i>Net Change in Fund Balance</i>	(13,111,760)	(1,811,245)	3,604,636	5,415,881
<i>Fund Balance Beginning of Year</i>	13,763,708	13,763,708	13,763,708	0
Prior Year Encumbrances Appropriated	837,666	837,666	837,666	0
<i>Fund Balance End of Year</i>	<u>\$1,489,614</u>	<u>\$12,790,129</u>	<u>\$18,206,010</u>	<u>\$5,415,881</u>

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2002

	<u>Insurance Reserve</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$3,912,794</u>
Liabilities	
Accounts Payable	6,164
Claims Payable	<u>3,420,692</u>
Total Liabilities	<u>3,426,856</u>
Net Assets	
Unrestricted	<u><u>\$485,938</u></u>

See accompanying notes to the basic financial statements

Akron City School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2002*

	Insurance Reserve
Operating Revenues	
Charges for Services	\$28,328,306
Operating Expenses	
Purchased Services	1,774,280
Claims	25,540,020
Total Operating Expenses	27,314,300
<i>Change in Net Assets</i>	1,014,006
<i>Net Assets (Deficit) Beginning of Year</i>	(528,068)
<i>Net Assets End of Year</i>	\$485,938

See accompanying notes to the basic financial statements

Akron City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2002

	Insurance Reserve
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received for Interfund Services	\$28,328,306
Cash Payments for Other Expenses	(1,768,116)
Cash Payments for Claims	(25,433,665)
<i>Net Cash Provided by Operating Activities</i>	1,126,525
<i>Net Increase in Cash and Cash Equivalents</i>	1,126,525
Cash and Cash Equivalents Beginning of Year	2,786,269
Cash and Cash Equivalents End of Year	\$3,912,794
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$1,014,006
Adjustment:	
<i>Increase in Liabilities:</i>	
Accounts Payable	6,164
Claims Payable	106,355
<i>Total Adjustments</i>	112,519
<i>Net Cash Provided by Operating Activities</i>	\$1,126,525

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$0	\$218,480
Cash and Cash Equivalents in Segregated Accounts	164,631	0
<i>Total Assets</i>	164,631	\$218,480
Liabilities		
Due to Students	0	\$205,924
Undistributed Monies	0	12,556
<i>Total Liabilities</i>	0	\$218,480
Net Assets		
Held in Trust for Scholarships	\$164,631	

See accompanying notes to the basic financial statements

Akon City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2002

	<u>Scholarship</u>
Additions	
Interest	\$2,625
Deductions	
Miscellaneous	<u>1,446</u>
Change in Net Assets	1,179
Net Assets Beginning of Year	<u>163,452</u>
Net Assets End of Year	<u><u>\$164,631</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, 2002

Note 1 – Description of the School District and Reporting Entity

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 613 school districts) in terms of enrollment. It is staffed by 1,434 classified employees, 2,268 certificated full-time teaching personnel and 185 administrative employees who provide services to 29,940 students and other community members. The School District currently operates 61 instructional buildings, two 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 insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District. The following activities are included within the reporting entity:

Non-Public Schools - Within the School District boundaries, St. Anthony School, St. Mary School, St. Martha Elementary, St. Matthew School, St. Paul School, St. Sebastian School, St. Vincent Elementary, Annunciation - St. John, Christ the King, Our Lady of Elms Elementary, Our Lady of Elms High School, Archbishop Hoban High School, and St. Vincent - St. Mary High School are operated through the Cleveland Catholic Diocese. Arlington Christian, Emmanuel Christian Academy, Summit Christian School, Lippman Day School, Zion Lutheran 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. The School District does not have any component units.

The School District participates in the Ohio Schools Council, a jointly governed organization. See Note 18.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 2 – Summary of Significant Accounting Policies

The financial statements of the 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 funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund 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 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 function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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 year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 is the School District's major governmental fund:

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.

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 changes in net assets, financial position and cash flow and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's internal service fund accounts for the operation of the School District's self-insurance program for employee health benefits.

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 a reconciliation 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, 2002

Like the government-wide statements, the internal service fund is 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 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 proprietary activity.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. 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 year when the resources are required to be used or the 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 Board of Education at the object level for the general fund and at the fund level for all other funds. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the 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 statements reflect the amounts in the certificate of estimated resources when the original appropriations were adopted by fund. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the internal service fund, 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 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 2002, the general fund advanced monies to several special revenue funds to cover negative cash balances. See Note 17 for additional information.

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

During fiscal year 2002, investments were limited to repurchase agreements, money market mutual fund and certificates of deposit, which are reported at 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 2002 amounted to \$1,292,842, which includes \$593,827 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 reported as cash equivalents.

G. Inventory

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

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include amounts required by State statute to be set aside to create a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

I. Capital Assets

The School District's only capital assets are general capital assets used in governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand 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 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:

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Description	Governmental Activities Estimated Lives
Building and Improvements	10 - 50 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 governmental activities column of 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.

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, accrued liabilities from proprietary funds are reported on the proprietary fund financial statements.

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

N. Fund Balance Reserves

The School District reserves those portions of fund balance 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 balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, property taxes and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents monies required to be set-aside by statute to protect against cyclical fluctuations in revenues and expenditures.

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 or regulations of other governments.

The School District applies restricted resources 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 fund. Revenues and expenses not meeting these definitions are reported as non-operating.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 3 – Change in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles For fiscal year 2002, the School District has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus,” Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2001, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Prior Year Fund Balances It was determined funds previously reported as enterprise funds should be reclassified and reported as special revenue funds. The new standard for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2001	\$14,569,565	\$11,421,491	\$25,991,056
Implementation of GASB			
Interpretation No. 6	936,089	350,324	1,286,413
Cash Adjustment	1,153	(1,153)	0
Fund Reclassification	<u>0</u>	<u>6,210,440</u>	<u>6,210,440</u>
Adjusted Fund Balance, June 30, 2001	<u>\$15,506,807</u>	<u>\$17,981,102</u>	33,487,909
GASB 34 Adjustments:			
Capital Assets			39,469,599
Internal Service Fund			(528,068)
Long-Term (Deferred) Assets			2,793,961
Compensated Absences Payable			(22,155,555)
Pension Obligation			(1,874,990)
Asbestos Loan Payable			(51,109)
Capital Leases Payable			<u>(1,579,087)</u>
Governmental Activities Net Assets, June 30, 2001			<u>\$49,562,660</u>

Note 4 – Accountability and Legal Compliance

A. Accountability

The following funds had a deficit fund balance on a GAAP basis at June 30, 2002:

<u>Special Revenue Funds</u>	<u>Amount</u>
Professional Development	\$387
State Head State	8
DPIA	118,297
Alternative School	1,971
Extended Learning Grant	106
Adult Basic Education	157,630
Job Training Partnership Act	155,720
Vocational Education	66,530
Head Start	628,469
Preschool Grants	5,797
Miscellaneous Federal Grants	371,572

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

B. Legal Compliance

Contrary to section 5705.39 of the Ohio Revised Code, the following funds had final appropriations in excess of carryover cash and certifications:

Fund	Final Certifications Plus Carryover Cash	Final Appropriations	Excess
Special Revenue Funds:			
Uniform School Supply	\$19,613	\$49,613	(\$30,000)
DPIA	21,172,904	21,200,291	(27,387)
Data Communications	481,511	485,807	(4,296)
Continuous Improvements	229,634	237,018	(7,384)
Internal Service Fund:			
Insurance Reserve	26,000,000	28,000,000	(2,000,000)

Although these budgetary violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to ensure no future violations.

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

Fund Type/Fund	Sept.	Nov.	Jan.	Apr.	May	June
Special Revenue Funds						
Venture Capital				(\$602)	(\$602)	
Economic Education	(\$12,000)	(\$12,000)	(\$12,000)			
Career Ed	(20,792)	(6,726)				
DPIA	(2,725,458)					
SchoolNet					(7,613)	
Extended Learning Opp				(3,887)		
Adult Basic Education			(77,203)	(1,799)	(66,690)	(\$152,357)
JTPA	(423,529)	(314,530)	(19,211)	(24,127)	(79,805)	(165,755)
Eisenhower Grant	(4,920)	(731)		(23,908)		
Title VIB				(707,208)		
Vocational Education	(159,578)	(231,513)	(194,365)	(157,146)	(40,050)	(60,318)
Head Start	(264,012)	(663,826)	(827,796)	(515,889)	(500,836)	(604,448)
Title I		(652,827)	(2,064,779)		(950,125)	
Title VI				(8,839)		
Drug Free	(63,474)	(48,265)		(1,759)		
Preschool Grant			(10,585)	(278)		(1,971)
Misc. Federal Grants	(85,870)		(84,876)	(706,790)	(247,452)	(370,744)
Capital Projects Fund						
Ohio School Facility Comm	(3,576,933)					
Internal Service Fund						
Warehouse Revolving						(21,204)
Agency Fund						
Agency Fund	(379,328)					

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of 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 Balances - Budget (Non-GAAP Basis) and Actual, 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 tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type for the general fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$2,771,066
Net Adjustment for Revenue Accruals	(2,554,147)
Advances In	4,845,372
Net Adjustment for Expenditure Accruals	(982,427)
Adjustment for Encumbrances	<u>(475,228)</u>
Budget Basis	<u><u>\$3,604,636</u></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, 2002

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

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 (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$2,214,317 and the bank balance was \$6,630,119. Of the bank balance:

1. \$368,105 was covered by federal depository insurance.
2. \$6,262,014 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are ensured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$31,305,000	\$31,305,000	\$31,305,000
Money Market Mutual Fund		11,098,331	11,098,331
Total Investments	\$31,305,000	\$42,403,331	\$42,403,331

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and investments on the general purpose financial statements and the classifications of deposits and investments presented above per GASB Statement 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$44,415,648	\$202,000
Repurchase Agreements	(31,305,000)	31,305,000
Money Market Mutual Fund	(11,098,331)	11,098,331
Investments with Maturity Greater than Three Months	202,000	(202,000)
GASB Statement No. 3	\$2,214,317	\$42,403,331

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 by the County are received by the School District in the second half of its 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 (used in business) property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) is for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of the prior January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second Half Collections		2002 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,143,942,600	81.40%	\$2,166,872,840	81.34%
Public Utility	146,906,520	5.60	119,059,860	4.46
Tangible Personal Property	343,655,565	13.00	378,158,644	14.20
	<u>\$2,634,504,685</u>	<u>100.00%</u>	<u>\$2,664,091,344</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$54.86		\$63.76	

The School District passed an 8.9 mill operating levy in November of 2001. This levy was partially received in fiscal year 2002 and will be fully realized in fiscal year 2003.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Tangible personal property taxes paid 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 at September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30 and intended to finance the fiscal year in which they are paid.

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 property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2003 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, personal property and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations.

The amount available as an advance at June 30, 2002 is recognized as revenue. At June 30, 2002, \$3,366,390 was available to the general fund and \$156,252 was available to the permanent improvement capital projects fund.

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

Note 8 – Receivables

Receivables at June 30, 2002, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental 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 year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Tuition	\$286,323
Unrestricted Grants	12,552
Other Grants	15,550
JTPA	42,847
Miscellaneous Federal Grants	22,300
Food Service	817,161
Adult Education	66,087
Title VI-B	290,902
Head Start	1,224,637
Title I	2,221,788
Ohio Schools Facilities Commission	1,602,968
Total Intergovernmental Receivables	\$6,603,115

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance 6/30/2001	Additions	Deletions	Balance 6/30/2002
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$5,263,636	\$0	\$0	\$5,263,636
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	91,143,943	0	0	91,143,943
Furniture and Equipment	41,047,428	2,207,737	(2,582,725)	40,672,440
Vehicles	5,674,139	45,078	(31,658)	5,687,559
<i>Total Capital Assets, being depreciated</i>	<u>137,865,510</u>	<u>2,252,815</u>	<u>(2,614,383)</u>	<u>137,503,942</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(66,858,035)	(1,394,850)	0	(68,252,885)
Furniture and Equipment	(33,010,519)	(2,372,065)	1,671,690	(33,710,894)
Vehicles	(3,790,993)	(563,271)	28,166	(4,326,098)
Total Accumulated Depreciation	<u>(103,659,547)</u>	<u>(4,330,186)*</u>	<u>1,699,856</u>	<u>(106,289,877)</u>
Total Capital Assets, being depreciated, net	<u>34,205,963</u>	<u>(2,077,371)</u>	<u>(914,527)</u>	<u>31,214,065</u>
Governmental Activities Capital Assets, Net	<u>\$39,469,599</u>	<u>(\$2,077,371)</u>	<u>(\$914,527)</u>	<u>\$36,477,701</u>

* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$1,815,494
Special	36,466
Vocational	222,931
Adult	15,995
Support Services:	
Pupils	91,181
Instructional Staff	182,586
Board of Education	1,019
Administration	42,453
Fiscal	2,130
Business	19,666
Operation and Maintenance of Plant	411,322
Pupil Transportation	389,653
Central	899,324
Food Service Operations	144,493
Non-Instructional Services	37,249
Extracurricular Activities	18,224
Total Depreciation Expense	<u>\$4,330,186</u>

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Nationwide Insurance is as follows:

Type of Coverage	Coverage Amount
Building and Contents - replacement cost (\$100,000 deductible)	\$523,201,658
Boiler and Machinery (\$2,500 deductible)	No Limit
Automobile Liability (no deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

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

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

Medical/surgical insurance is offered to employees through a self-insurance internal service fund. The School District has a third party administrator, Blue Cross Blue Shield Mutual Health, for the self-insurance activity. The claims liability of \$3,420,692 reported in the internal service fund at June 30, 2002 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 claims activity for fiscal years 2001 and 2002 are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claims Payments	Balance at End of Fiscal Year
2001	\$2,016,671	\$23,868,139	\$22,570,473	\$3,314,337
2002	3,314,337	25,540,020	25,433,665	3,420,692

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was 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, 2002, 2001 and 2000 were \$1,883,450, \$1,374,764 and \$1,722,855, respectively; 50.92 percent has been contributed for 2002 and 100 percent for fiscal years 2001 and 2000. \$924,364 represents the unpaid contributions for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that included financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rate of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligation to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$13,353,285, \$12,765,401 and \$7,533,115, respectively; 81.80 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$2,430,332 represents the unpaid contribution for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement/State Teachers Retirement System. As of June 30, 2002, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Post Employment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$6,325,240 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal 2001. 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 2002, the minimum pay was established as \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$3,745,900.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 13 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State Laws. Employees working 52 weeks per year earn 10 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 380 days for all staff. Upon retirement, payment is made for one-fourth of the total sick leave accumulation. Certified employees receive 1) two additional days for each year of perfect attendance commencing July 1, 1976 through June 30, 1981; and 2) one additional day for each year of perfect attendance commencing July 1, 1981.

B. Insurance Benefits

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

Note 14 – Capital Leases

Capital lease obligations relate to copiers for the School District. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases.” Capital assets acquired by lease have been originally capitalized in the amount of \$2,398,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation on these leases was \$1,438,800 leaving a current book value of \$959,200 as of June 30, 2002. Principal payments during fiscal year 2002 totaled \$518,752 in the governmental funds.

Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Amount
2003	\$569,604
2004	569,604
Total	1,139,208
Less Amount Representing Interest	(39,208)
Present Value of Net Minimum Lease Payments	\$1,100,000

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 15 – Notes Payable

A summary of the note activity for the year ended June 30, 2002, follows:

	<u>Outstanding</u> <u>6/30/2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>6/30/2002</u>
General Fund				
1995, \$20,100,000, 6.50%				
School Foundation Note	<u>\$4,884,102</u>	<u>\$0</u>	<u>\$2,775,039</u>	<u>\$2,109,063</u>

The school foundation notes, issued to cover the deficit operating balance, will be repaid with State Foundation revenue. The notes are backed by the full faith and credit of the School District. The note liability is reflected in the general fund, which received the proceeds. Principal and interest requirements to retire notes outstanding at June 30, 2002, are as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Ending June 30, 2003	<u>\$2,109,063</u>	<u>\$59,323</u>	<u>\$2,168,386</u>

Note 16 - Long-Term Obligations

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

	<u>Outstanding</u> <u>6/30/2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>6/30/2002</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
1988 \$141,533, 0%					
Asbestos Loan	\$51,109	\$0	\$7,863	\$43,246	\$7,863
Capital Leases	1,579,087	39,665	518,752	1,100,000	518,752
Compensated Absences	<u>22,155,555</u>	<u>4,818,497</u>	<u>1,770,874</u>	<u>25,203,178</u>	<u>6,248,628</u>
Total Governmental Activities Long-Term Liabilities	<u>\$23,785,751</u>	<u>\$4,858,162</u>	<u>\$2,297,489</u>	<u>\$26,346,424</u>	<u>\$6,775,243</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.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Principal requirements to retire the asbestos loan outstanding at June 30, 2002 are as follows:

	<u>Principal</u>
2003	\$7,863
2004	7,863
2005	7,863
2006	7,863
2007	7,863
2008	3,931
	<u>\$43,246</u>

Capital leases will be paid from the general fund. Compensated absences will be paid from the general, public school support, other grants, auxiliary services, career education, public school preschool, disadvantaged pupil act, Ohio reads, alternative school, miscellaneous state grants, adult basic education, JTPA, title VI-B, vocational education, head start, title I, title VI, drug free schools, preschool, continuous improvement projects, other federal grants, permanent improvement, school net video learning, food service, and adult education funds.

The School District's overall debt margin was \$239,822,402 with an unvoted debt margin of \$2,663,964 at June 30, 2002.

Note 17 – Interfund Transfers and Balances

A. Transfers

Transfers are primarily from the general fund to various funds within the School District. These transfers are made to move unrestricted balances to support programs and projects accounted for in other funds. The athletic and music fund transferred \$5,771 to the general fund to support student programs.

Transfers made during the fiscal year ended June 30, 2002 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>		
	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
General	\$0	\$5,771	\$5,771
Nonmajor Fund	237,862	5,319	243,181
Total	<u>\$237,862</u>	<u>\$11,090</u>	<u>\$248,952</u>

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

B. Balances

The general fund advanced funds to various special revenue funds to cover negative cash balances at the end of fiscal year 2002.

Advanced To	Nonmajor
Adult Basic Education	\$140,904
Job Training Partnership Act	159,736
Vocational Education	53,318
Head Start	569,044
Handicapped Preschool	284
Miscellaneous Federal Grants	335,972
	\$1,259,258

Note 18 – Jointly Governed Organization

The Ohio Schools Council (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the School District paid \$750 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a 12 year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation a political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase 12 years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover its contributions, if any, from the operating funds which are not encumbered for its share of program administrative costs.

Note 19- 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, 2002.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 20 – Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. During the year, the Board approved spending \$1,436,000 of the worker's compensation refunds set aside in previous years. Therefore, at June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Reserve
Set-aside Reserve Balances as of June 30, 2001	\$0	\$0	\$1,904,997
Current Year Set-aside Requirement	3,924,450	3,924,450	0
Qualifying Disbursements	<u>(4,693,122)</u>	<u>(7,732,023)</u>	<u>(1,436,000)</u>
Totals	<u>(\$768,672)</u>	<u>(\$3,807,573)</u>	<u>\$468,997</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$768,672)</u>	<u>\$0</u>	<u>\$468,997</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$468,997</u>

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 21 - 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 its financial operations.

AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
NATIONAL SCIENCE FOUNDATION						
<i>(Direct)</i>						
Education and Human Services	47.076		\$419,431	\$0	\$626,032	\$0
			<u>0</u>	<u>0</u>	<u>30,607</u>	<u>0</u>
Total Education and Human Services			<u>419,431</u>	<u>0</u>	<u>656,639</u>	<u>0</u>
Total National Science Foundation			419,431	0	656,639	0
U.S. DEPARTMENT OF EDUCATION						
<i>(Direct)</i>						
Impact Aid - Maintenance/Operations	84.041		20,503	0	20,503	0
Student Financial Assistance Cluster: Federal Family Education Loan Program	84.032		200,239	0	200,239	0
Federal Pell Grant Program	84.063		164,865	0	164,865	0
			88,430	0	88,430	0
			24,164	0	24,164	0
			193,944	0	193,964	0
PELL - Administrative Allowance			355	0	355	0
Total Federal Pell Grant Program			<u>471,758</u>	<u>0</u>	<u>471,778</u>	<u>0</u>
Total Student Financial Assistance Cluster			671,997	0	672,017	0
Adult Education - State Grant Program <i>(Passed through Ohio Department of Education)</i>	84.002	043489-AB-S1-01	40,141	0	40,141	0
		043489-AB-S1-02	212,203	0	364,469	0
		043489-AB-S1-01C	68,436	0	68,526	0
Total Adult Education - State Grant Program <i>(Passed through Ohio Department of Education)</i>			320,780	0	473,136	0
Adult Education - State Grant Program <i>(Passed through County of Summit)</i>		N/A	283,338	0	283,338	0
Total Adult Education-State Grant Program <i>(Passed through Ohio Department of Education)</i>			604,118	0	756,474	0
Eisenhower Professional Development State Grants	84.281	048489-MSS4-2001	1,000	0	1,000	0
		043489-MS-S1-02	172,664	0	97,038	0
		04489-MS-S1-01	152,810	0	209,161	0
		043489-MS-S1-00	36,678	0	34,999	0
Total Eisenhower Professional Development State Grants			<u>363,152</u>	<u>0</u>	<u>342,198</u>	<u>0</u>
Special Education Cluster: Special Education Grants to States	84.027	043489-6B-SL-01P	0	0	3,844	0
		043489-6B-SF-02P	2,728,389	0	2,489,932	0
		043489-6B-SF-01P	0	0	321,109	0
		043489-6B-SF-00P	0	0	207,937	0
		043489-6B-SX-00P	0	0	32	0
Total Special Education Grants to States			<u>2,728,389</u>	<u>0</u>	<u>3,022,854</u>	<u>0</u>
Special Education Preschool Grants	84.173	043489-PG-S1-02P	117,700	0	119,671	0
		043489-PG-S1-01P	13,674	0	13,674	0
Total Special Education Preschool Grants			<u>131,374</u>	<u>0</u>	<u>133,345</u>	<u>0</u>
Total Special Education Cluster			2,859,763	0	3,156,199	0
Vocational Education-Basic Grants to States	84.048	043489-20A0-2001	25,160	0	26,782	0
		VECP11-S02	597,514	0	639,723	0
		CP111-A02	97,964	0	111,074	0
		CP111-A01-095	15,771	0	15,772	0
		CP111-S01-095	106,161	0	106,162	0
		N/A	12,626	0	12,626	0
Total Vocational Education-Basic Grants to States			<u>855,196</u>	<u>0</u>	<u>912,139</u>	<u>0</u>
Vocational Education - Consumer and Homemaking	84.051	VECA-2002-PD-01	0	0	5,000	0
		AWEFSC-2002-01	20,000	0	20,000	0
		VESP-00-CG-043489	0	0	4,922	0
Total Vocational Education - Consumer and Homemaking			20,000	0	29,922	0
Fund for the Improvement of Education	84.215	043489-CJ-S1-00	0	0	1,691	0
Technology Literacy Challenge Fund Grants	84.318	SchoolNet Virtual	9,000	0	9,000	0
		Raising the Bar	438,272	0	405,083	0
Total Technology Literacy Challenge Fund Grants			<u>447,272</u>	<u>0</u>	<u>414,083</u>	<u>0</u>

(Continued)

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
Title I Grants to Local Educational Agencies	84.010	043489-C1-S1-02	9,015,779	0	7,790,176	0
		043489-C1-SD-01C	597,524	0	519,938	0
		043489-C1-S1-00C	0	0	(438,886)	0
		043489-C1-S1-01	263,866	0	280,280	0
		043489-C1-S1-00	0	0	604,581	0
		043489-C1-S1-99C	0	0	1	0
Total Title I Grants to Local Educational Agencies			9,877,169	0	8,756,090	0
Education for Homeless Children and Youth	84.196	043489-HC-S1-02	70,000	0	70,000	0
		043489-HC-S1-01	9,151	0	9,151	0
		043489-C1-SS-01P	25,000	0	25,000	0
Total Education for Homeless Children and Youth			104,151	0	104,151	0
Capital Expenses	84.216	043489-CX-S1-01	65,019	0	34,571	0
		043489-CX-S1-00	13,350	0	13,351	0
Total Capital Expenses			78,369	0	47,922	0
School Improvement - Mason Title I	84.348A	043489-AK-S1-02	100,238	0	22,759	0
		043489-AK-S1-01	109,875	0	141,956	0
Total School Improvement - Mason Title 1			210,113	0	164,715	0
Innovative Educational Program Strategies Title VI	84.298	043489-C2-S1-02	211,699	0	202,812	0
		043489-C2-S1-01	80,377	0	87,481	0
		043489-C2-S1-00	0	0	22,266	0
		043489-CR-S1-00	0	0	100,507	0
Total Innovative Educational Program Strategies			292,076	0	413,066	0
Class Size Reduction Title VI-R	84.340	043489-CR-S1-02	1,213,510	0	1,406,944	0
		043489-CR-S1-01	0	0	243,442	0
		043489-C2-S1-99C	0	0	44,383	0
Total Class Size Reduction Title VI-R			1,213,510	0	1,694,769	0
Immigrant Education	84.162	N/A	8,350	0	8,300	0
		N/A	0	0	4,304	0
Total Immigrant Education			8,350	0	12,604	0
Refugee and Entrant Assistance Discretionary Grant	93.576	N/A	11,340	0	11,340	0
Safe and Drug-Free Schools and Communities State Grants	84.186	043489-DR-S1-02	198,784	0	194,029	0
		043489-DR-S1-01	99,474	0	94,582	0
		043489-DR-S1-00	0	0	545	0
Total Safe and Drug-Free Schools and Communities State Grants			298,258	0	289,156	0
Goals 2000 State and Local Educational Systemic Improvement Programs: Ohio Consortium for Concept Learn	84.276	043489-G2-ST-99	0	0	(4,627)	0
Performance Incentive Grant		043489-G2-S1-00	0	0	20,431	0
		043489-G2-S1-01	97,897	0	91,206	0
Total Performance Incentive Grant			97,897	0	111,637	0
Essex MiniGrant - Author Author		04489-G2-SP-2001	820	0	820	0
Continuous Improvement Implementation		043489-G2-S2-01P	0	0	12,470	0
		043489-G2-S2-01	0	0	45,160	0
Total Continuous Improvement Implementation			0	0	57,630	0
Ohio High School Transformation Planning		043489-G2-S5-01	37,000	0	3,317	0
High Schools - The Work Academy		NA	9,000	0	0	0
High Schools - The Work District Support		NA	7,000	0	7,000	0
East High Schools That Work/Year 2		043489-G2-S6-01P	0	0	9,077	0
Garfield High Schools That Work		STW2001FED-01	21,000	0	21,000	0
Total High Schools That Work			21,000	0	30,077	0
Total GOALS 2000 State and Local Educational Systemic Improvement Programs			172,717	0	205,854	0
Total U.S. Department of Education			18,108,054	0	18,004,893	0

(Continued)

AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
U.S. DEPARTMENT OF LABOR <i>(Passed through City of Akron)</i>						
Work Force Investment Act	17.255	2001-187	258,717	0	381,625	0
Job Training Partnership Act	17.250	N/A	0	0	42,847	0
		N/A	459,320	0	459,320	0
		N/A	0	0	20	0
Total Job Training Partnership Act			<u>459,320</u>	<u>0</u>	<u>502,187</u>	<u>0</u>
Total U.S. Department of Labor			718,037	0	883,812	0
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT <i>(Passed through City of Akron)</i>						
Empowerment Zones Program	14.244	N/A	22,550	0	22,551	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(Passed through the Ohio Department of Mental Retardation & Developmental Disabilities)</i>						
Medical Assistance Program - FY 00	93.778	N/A	16	0	16	0
Medical Assistance Program - FY 01		N/A	989,846	0	989,846	0
Medical Assistance Program - FY 02		N/A	1,198,797	0	1,198,797	0
Total Medical Assistance Program			<u>2,188,659</u>	<u>0</u>	<u>2,188,659</u>	<u>0</u>
<i>(Passed through Akron Summit Community Action Agency)</i>						
Head Start	93.600	PA-22-01-02	971,822	0	1,586,812	0
		PA-22-01-02	4,496	0	11,258	0
		PA-22-00-01	1,376,819	0	1,264,399	0
		PA-22-00-01	16,233	0	16,233	0
		PA-22-00-01	14,000	0	14,000	0
Total Head Start			<u>2,383,370</u>	<u>0</u>	<u>2,892,702</u>	<u>0</u>
<i>(Passed through the County of Summit)</i>						
Temporary Assistance for Needy Families	93.558	N/A	36,584	0	60,000	0
		N/A	31,719	0	65,120	0
		N/A	0	0	431	0
Total Temporary Assistance for Needy Families			<u>68,303</u>	<u>0</u>	<u>125,551</u>	<u>0</u>
Total U.S. Department of Health and Human Services			4,640,332	0	5,206,912	0
U.S. DEPARTMENT OF AGRICULTURE <i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A	0	513,359	0	513,359
School Breakfast Program	10.553	N/A	1,084,064	0	1,084,064	0
National School Lunch Program	10.555	N/A	4,713,949	0	4,713,949	0
Summer Food Program	10.559	N/A	6,356	0	6,356	0
Total Child Nutrition Cluster			<u>5,804,369</u>	<u>513,359</u>	<u>5,804,369</u>	<u>513,359</u>
Total U.S. Department of Agriculture			5,804,369	513,359	5,804,369	513,359
U.S. DEPARTMENT OF DEFENSE <i>(Direct)</i>						
Air Force R.O.T.C. Grant	12.XXX		41,440	0	41,440	0
Army R.O.T.C. Grant	12.XXX		57,633	0	57,633	0
Marines R.O.T.C. Grant	12.XXX		32,577	0	32,577	0
Navy R.O.T.C. Grant	12.XXX		28,208	0	28,208	0
Total U.S. Department of Defense			<u>159,858</u>	<u>0</u>	<u>159,858</u>	<u>0</u>
TOTALS			<u>\$29,872,631</u>	<u>\$513,359</u>	<u>\$30,739,034</u>	<u>\$513,359</u>

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

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002, the District had \$15,840 of food commodities in inventory.

NOTE C - 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 of Receipts and Expenditures of Federal Awards.

NOTE D - MEDICAL ASSISTANCE PROGRAM

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the basic financial statements of Akron City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2002 and have issued our report thereon dated February 14, 2003, in which we noted the District adopted Governmental Accounting Standards Board Statement No. 34 and reclassified the Enterprise Funds to Special Revenue Funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The noncompliance item is described in the accompanying Schedule of Findings as item 2002-10977-001.

We also noted certain immaterial instances of noncompliance that that we have reported to the management of the District in a separate letter dated February 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-10977-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal controls over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 14, 2003.

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

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

Betty Montgomery
Auditor of State

February 14, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Akron City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2002.

We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 14, 2003.

Internal Control Over Compliance

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

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

However, we noted other matters involving internal controls over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 14, 2003.

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

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

Betty Montgomery
Auditor of State

February 14, 2003

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

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 non-compliance 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?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Family Education Loan (CFDA 84.032) and Federal Pell Grant Program (CFDA 84.063); Technology Literacy Challenge Fund (CFDA 84.318); Title I (CFDA 84.010); Head Start (CFDA 93.600); Innovative Educational Program Strategies - Title VI (CFDA 84.298); Class Size Reduction - Title VIR (CFDA 84.340); Medicaid Allowance (CFDA 93.778)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 937,571 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-10977-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states 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.

Throughout fiscal year 2002, certain funds incurred negative fund balances as follows:

Fund Type/Fund	Sept.	Nov.	Jan.	Apr.	May	June
Special Revenue Funds						
Venture Capital (032)				(\$602)	(\$602)	
Economic Education (406)	(\$12,000)	(\$12,000)	(\$12,000)			
Career Ed (409)	(20,792)	(6,726)				
DPIA (447)	(2,725,458)					
SchoolNet (452)					(7,613)	
Extended Learning Opp (465)				(3,887)		
Adult Basic Education (501)			(77,203)	(1,799)	(66,690)	(\$152,357)
JTPA (502)	(423,529)	(314,530)	(19,211)	(24,127)	(79,805)	(165,755)
Eisenhower Grant (514)	(4,920)	(731)		(23,908)		
Title VIB (516)				(707,208)		
Vocational Education (524)	(159,578)	(231,513)	(194,365)	(157,146)	(40,050)	(60,318)
Head Start (525)	(264,012)	(663,826)	(827,796)	(515,889)	(500,836)	(604,448)
Title I (572)		(652,827)	(2,064,779)		(950,125)	
Title VI (573)				(8,839)		
Drug Free (584)	(63,474)	(48,265)		(1,759)		
Preschool Grant (587)			(10,585)	(278)		(1,971)
Misc. Federal Grants (599)	(85,870)		(84,876)	(706,790)	(247,452)	(370,744)
Capital Projects Fund						
Ohio School Facility Comm (496)	(3,576,933)					
Internal Service Fund						
Warehouse Revolving (021)						(21,204)
Agency Fund						
Agency (022)	(379,328)					

The Treasurer 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.

FINDING NUMBER 2002-10977-002

Reportable Condition

In its Student Activity Handbook, the District has established certain control procedures over extracurricular activities such as the completion of Budget and Purpose Statements on or before November 15th; the completion and approval of Fund Raiser Request Forms prior to any sales or purchases for a fund raiser; and the completion of a Profit and Loss Statement to summarize the profit or loss of the fund raiser. These control procedures are distributed to all buildings. They are further stressed through internal audits conducted randomly throughout the fiscal year; however, the following discrepancies were noted during our control testing:

1. 3 of the 40 activities tested had at least one required form missing.
2. 5 of the 40 activities tested had fund raisers in which one of the required forms was not fully completed.
3. 2 of the 40 activities had fund raisers in which one of the required forms was incorrectly completed.
4. 1 of the 40 activities had Profit and Loss Statements with dates that did not reasonably agree to the corresponding Fund Raiser Request Forms.
5. 8 of the 40 activities had fund raisers that were ongoing; however, monthly Profit and Loss Statements were not completed.
6. 1 of the 40 activities had a Budget and Purpose Statement that was dated after November 15.

Not completing these forms could result in revenue being uncollected or diverted for unauthorized purposes without detection by management.

The District should ensure that all student activity advisors complete and file the required forms for each fund raising project. This will help to ensure accountability over student activity project sale items and revenues.

A similar matter was reported in our audit of the June 30, 2001 financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b) and GAGAS
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10977-001	Student Activity Advisors were not in compliance with Board Policies and Procedures	No	Not Corrected – Repeated as Finding 2002-10977-002.
2001-10977-002	Failure to verify family income for the Head Start federal program	No	Partially corrected – reported in Management Letter for FY 2002.



**Auditor of State
Betty Montgomery**

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AKRON CITY SCHOOL DISTRICT

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2003**