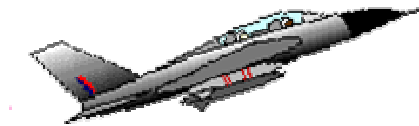


AUDIT REPORT

JULY 1, 2002 THROUGH JUNE 30, 2003



ALLIANCE CITY SCHOOL DISTRICT STARK COUNTY



**Auditor of State
Betty Montgomery**

Board of Education
Alliance City School District
200 Glamorgan St.
Alliance, Ohio 44601

We have reviewed the Independent Auditor's Report of the Alliance City School District, Stark County, prepared by Moore Stephens Apple, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 11, 2004

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ALLIANCE CITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2003

TABLE OF CONENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund	21
Notes to the Basic Financial Statements	22
Schedule of Expenditures of Federal Awards	45
Independent Auditors' Report on Compliance and Internal Control Required by Government Auditing Standards	48
Independent Auditors' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	49
Schedule of Findings and Questioned Costs	51
Schedule of Prior Audit Findings	52

INDEPENDENT AUDITORS' REPORT

Board of Education
Alliance City School District
Alliance, Ohio 44601

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alliance City School District, , Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 government activities, each major fund, and the aggregate remaining fund information of the Alliance City School District, Stark County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 A, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and Interpretation No. 6 and changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule 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, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moore Stephens Apple

Akron, Ohio
December 31, 2003

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

This discussion and analysis of Alliance 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, 2003. 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data are not available. Future Management Discussion and Analyses will be comparative.

Financial Highlights

Key financial highlights for 2003 are as follows:

- Net assets of governmental activities increased \$15,628,723 representing a 45% increase from fiscal year 2002. The district is nearing the end of a \$61,358,124 building project in cooperation with the Ohio School Facilities Commission.
- General revenues accounted for \$24,295,000 in revenue or 53% of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$23,411,706 or 47% of total revenues of \$47,706,706.
- The school District had \$32,077,983 in expenses related to governmental activities; only \$23,411,706 of these expenses was offset by program specific charges for services, operating grants, contributions and interest. General revenues of \$24,295,000 contributed to support these programs.
- The School District's major governmental funds are the general fund and the school facilities fund. The general fund had \$20,855,948 in revenues and other financing sources and \$20,841,114 in expenditures and other financing uses. The general fund's fund balance increased \$14,834 from (\$2,161,498) to (\$2,146,664). The school facilities fund had \$16,751,200 in revenues and other financing sources and \$22,726,362 in expenditures and other financing uses. The school facilities fund's fund balance decreased \$5,975,162 from \$19,589,866 to \$13,614,704.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole 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, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Alliance City School District, the general fund and the school facilities fund are by far the most significant funds, and are the only governmental funds reported as major funds.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about 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 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This accrual basis takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader if, 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 current 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 School District's activities are considered to be all Governmental Activities:

Governmental Activities - Most 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 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the school facilities fund.

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

The *Statement of Net Assets* provides the perspective of the School District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

Table 1 provides a summary of the School District's net assets for 2003:

	<i>Table 1</i>
	<i>Net Assets</i>
	<u><i>Governmental Activities</i></u>
	<u><i>2003</i></u>
<i>Assets</i>	
<i>Current and other assets</i>	\$ 27,554,196
<i>Capital assets, net of depreciation</i>	<u>49,558,428</u>
<i>Total assets</i>	<u><u>77,112,624</u></u>
<i>Liabilities</i>	
<i>Current liabilities</i>	12,496,566
<i>Long-Term liabilities</i>	<u>14,341,664</u>
<i>Total liabilities</i>	<u><u>26,838,230</u></u>
<i>Net Assets</i>	
<i>Invested in Capital Assets, Net of Related Debt</i>	38,220,653
<i>Restricted</i>	21,508,660
<i>Unrestricted</i>	<u>(9,454,919)</u>
<i>Total net assets</i>	<u><u>\$ 50,274,394</u></u>

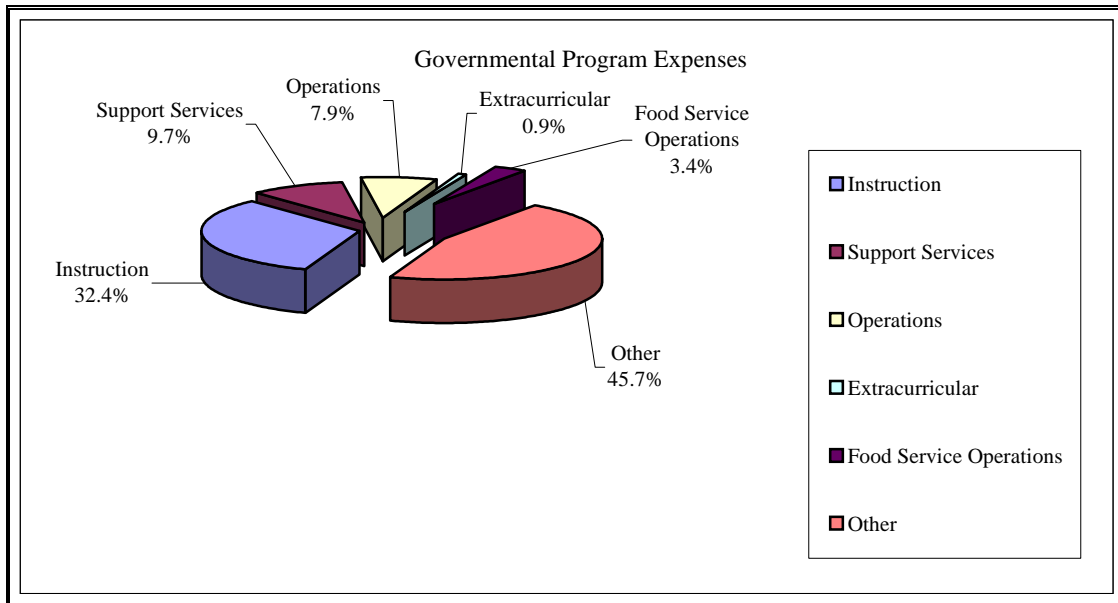
Table 2 shows changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
Changes in Net Assets

	<u>Governmental Activities 2003</u>
Revenues	
<i>Program revenues</i>	
<i>Charges for services</i>	\$ 1,114,899
<i>Operating grants, contributions and interest</i>	4,360,036
<i>Capital grants and contributions</i>	17,936,771
<i>General revenues</i>	
<i>Property taxes</i>	7,316,384
<i>Grants and entitlements</i>	14,312,871
<i>Investment earnings</i>	55,207
<i>Miscellaneous</i>	2,610,538
<i>Total revenues</i>	<u>47,706,706</u>
Program Expenses	
<i>Instruction</i>	
<i>Regular</i>	13,861,539
<i>Special</i>	3,667,119
<i>Vocational</i>	1,254,501
<i>Adult/continuing</i>	74,412
<i>Other</i>	294,601
<i>Special services</i>	
<i>Pupil</i>	1,445,513
<i>Instructional staff</i>	1,083,296
<i>Board of education</i>	20,193
<i>Administration</i>	2,409,401
<i>Fiscal</i>	201,040
<i>Business</i>	66,029
<i>Operation and maintenance of plant</i>	3,872,170
<i>Pupil transportation</i>	563,149
<i>Central</i>	101,876
<i>Operation non-instructional services</i>	94,287
<i>Extracurricular activities</i>	560,251
<i>Food service operations</i>	1,857,370
<i>Interest and fiscal charges</i>	651,236
<i>Total expenses</i>	<u>32,077,983</u>
<i>Increase in Net Assets</i>	15,628,723
<i>Net Assets, July 1</i>	34,645,671
<i>Net Assets, June 30</i>	<u>\$ 50,274,394</u>

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited



Governmental Activities

Alliance City School District depends on both property taxes and State funding.

Several revenue sources fund our governmental activities, with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$7.3 million in 2003. General revenues from grants and entitlements, such as the school foundation program, generated over \$14.3 million. Due to the combination of taxes and intergovernmental funding representing over 46% of all revenues, the School District monitors both of these sources very closely for fluctuations.

The Ohio State Supreme Court DeRolph decision has not eliminated the dependence on property taxes. The community has supported the Alliance City School District by voting levies comprising 15.8% of total revenues for the School District.

A review of Table 2 reflects the total cost of instructional services was \$19,152,172 or 59.7% of governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil. Pupil services and instructional staff include the activities involved in assisting staff and the content and process of teaching to pupils. These expenses represent \$2,528,809 of the total governmental program expenses, or 7.9%.

Board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the school district. The total cost was \$2,696,663 or 8.4% of governmental program expenses.

Operation and maintenance of plant expenses refer to the care and upkeep of the buildings, grounds, equipment and the safety of the School District's operations. The total cost for the operation and maintenance services was \$3,872,170 or 12.1% of the governmental program expenses.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Pupil transportation expenses are expenses related to the transportation of students to and from school, as well as the service and maintenance of those vehicles. Total transportation cost was \$563,149 or 1.8% of the total governmental program expenditures.

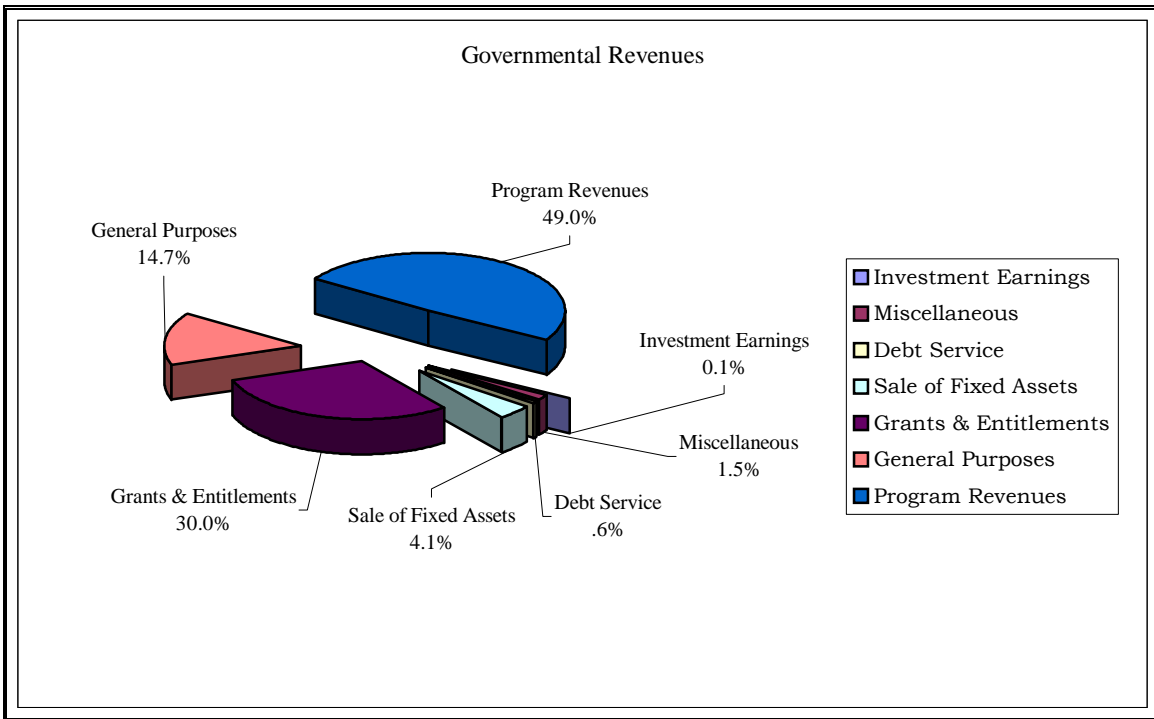
Net assets of the School District's governmental activities increased by \$15,628,723. This increase is attributed to the Alliance City Schools participation in the Ohio School Facilities Commission building program. A \$10.9 million dollar bond issue was passed in 1999. The bond issue enabled Alliance City Schools to receive an additional \$51.7 million dollars in State funds to replace or renovate all of the school buildings in the district.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to fiscal year 2002 are not available due to fiscal year 2003 being the initial year of implementation of GASB Statement No. 34.

Table 3
Governmental Activities

	<u>Total Cost</u> <u>of Services</u> <u>2003</u>	<u>Net Cost</u> <u>of Services</u> <u>2003</u>
<i>Program Expenses:</i>		
<i>Instruction</i>		
<i>Regular</i>	\$ 13,861,539	\$ (4,209,618)
<i>Special</i>	3,667,119	(2,333,099)
<i>Vocational</i>	1,254,501	(1,183,714)
<i>Adult/continuing</i>	74,412	155,552
<i>Other</i>	294,601	(255,863)
<i>Special services</i>		
<i>Pupil</i>	1,445,513	(596,032)
<i>Instructional staff</i>	1,083,296	140,138
<i>Board of education</i>	20,193	(20,193)
<i>Administration</i>	2,409,401	(2,081,586)
<i>Fiscal</i>	201,040	(201,040)
<i>Business</i>	66,029	(38,639)
<i>Operation and maintenance of plant</i>	3,872,170	2,444,550
<i>Pupil transportation</i>	563,149	(383,781)
<i>Central</i>	101,876	264,749
<i>Operation non-instructional services</i>	94,287	72,790
<i>Extracurricular activities</i>	560,251	722,739
<i>Food service operations</i>	1,857,370	(625,628)
<i>Interest and fiscal charges</i>	651,236	(537,602)
<i>Total expenses</i>	\$ 32,077,983	\$ (8,666,277)

Alliance City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited



Program Revenues include charges for services, grants, contributions and interest that are program specific. Surrounding schools whose resident students are educated by the Alliance City Schools pay the School District tuition under Ohio's open enrollment entitlement. Special and Vocational Education program tuition is received for resident students of other districts who attend those programs in the School District.

Property taxes made up 15.3% of total revenues for governmental activities for the Alliance City Schools in fiscal year 2003. Sale of Fixed Assets for governmental activities provided 4.1% of governmental revenues. The 30.0% provided by the grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920.

The School District's Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$46,216,963 and total expenditures were \$52,760,686. The net change in fund balance for the year was most significant in the OSFC building fund with a decrease of \$5,975,162. This decrease is attributed to the fact that the school district had received the State's OSFC funds and is now spending the local bond proceeds.

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

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

During fiscal year 2003, the School District amended its general fund budget several times, however none were significant. Budget revisions become necessary as expenditure priorities change according to student, building and operational needs. The School District's budgeting systems are designed to tightly control total budgets but provide flexibility for management.

For the general fund, final budgeted revenue and other financing sources estimate was \$20,595,384 representing a decrease from the original budget estimate of \$21,279,395. The difference of \$684,011 is attributed to lower enrollments and a reduction in State funding at the end of the fiscal year.

General fund original appropriations were decreased to allow for the decrease in State funding. The school district was fortunate it was able to delay paying health insurance premiums until future years.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$49,558,428 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002:

Table 4
Capital Assets at June 30, 2003
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
<i>Land</i>	\$ 1,288,837	\$ 1,288,837
<i>Buildings and improvements</i>	46,452,666	25,940,061
<i>Furniture, fixtures and equipment</i>	1,657,851	759,988
<i>Vehicles</i>	159,074	147,625
<i>Total capital assets</i>	<u>\$ 49,558,428</u>	<u>\$ 28,136,511</u>

During fiscal year 2003 the School District acquired \$23,550,071 in capital assets for buildings and improvements, equipment, and school buses. The net increase in capital assets from fiscal year 2002 occurred due to the school district building program.

Debt Administration

At June 30, 2003 the School District had \$11,289,990 in general obligation bonds outstanding and with \$535,000 due within one year. Table 5 shows fiscal year 2003 balances compared to fiscal year 2002:

Table 5
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
<i>General obligation bonds</i>	\$ 11,289,990	\$ 11,794,990
<i>Total outstanding debt</i>	<u>\$ 11,289,990</u>	<u>\$ 11,794,990</u>

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

In 1991 the School District issued general obligation bonds for an addition to South Lincoln Elementary School. The general obligation bonds are scheduled to mature in fiscal year 2007 and bear an interest rate of 6.6847%.

In July 2000 the School District issued general obligation bonds for matching funds for the Ohio School Facilities Building program for school improvements. The general obligation bonds are scheduled to mature in fiscal year 2023 and bear an interest rate of 6.0299%.

In May of 2001 the School District issued general obligation bonds for land acquisitions for the Ohio School Facilities Building program for school improvements. The general obligation bonds are also scheduled to mature in fiscal year 2003 and bear an interest rate of 5.8646%.

Current Issues Affecting Financial Condition

In fiscal year 2004 the School District has placed a \$2,000,000, 5 year emergency levy on the ballot.

The School District had a General Fund cash balance of \$613,127 at June 30, 2003. Also the School District was able to delay payment of \$1,028,222 of health care premiums beyond June 30, 2003. Year-end General Fund cash balances were \$1,083,079, \$1,357,886, \$1,349,391 and \$821,480 in Fiscal Years 1999, 2000, 2001 and 2002, respectively.

The School District has implemented several cuts over the past several years. The most recent cut was over one million dollars for the current fiscal year. With aid from the State of Ohio leveling off and not keeping up with inflation, the District has to look to the local taxpayers for property tax increases.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion in the DeRolph case regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. However, the biennial budget approved by the State of Ohio for fiscal years 2004 and 2005 did not prove favorable to the School District, as several changes in the funding formula negatively affected the School District's state allocation.

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. The negative state funding changes resulted in the rounds of spending reductions previously mentioned.

The Alliance City School District has a long-term history of commitment to educational and financial excellence. The budgeting and internal controls utilized by the School District are well regarded by independent auditors, as exemplified by the unqualified audit opinions that have been received. The School District strives to maintain good stewardship of taxpayer-financed resources, and endeavors to honor the high respect that the community has long held for its School District.

Alliance City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Contacting the School District's Financial 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 questions about this report or need additional financial information, contact Dale R. Burdett RSBFO, Treasurer, Alliance City School District, 200 Glamorgan, Alliance, Ohio 44601 by phone (330) 829-2276 or e-mail burdett@acs.sparcc.org.

Alliance City School District
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$19,501,585
Receivables:	
Property Taxes Receivable	7,152,366
Accounts Receivable	38,401
Intergovernmental Receivable	366,959
Accrued Interest	966
Prepaid Items	9,296
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	395,967
Inventory Held for Resale	0
Materials and Supplies Inventory	88,656
Land	1,288,837
Other Capital Assets, Net of Accumulated Depreciation	<u>48,269,591</u>
<i>Total Assets</i>	<u>77,112,624</u>
Liabilities	
Accounts Payable	1,144,148
Accrued Wages and Benefits Payable	4,392,054
Intergovernmental Payable	666,215
Accrued Interest Payable	47,785
Deferred Revenue	6,246,364
Long-Term Liabilities:	
Due Within One Year	644,230
Due In More Than One Year	<u>13,697,434</u>
<i>Total Liabilities</i>	<u>26,838,230</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	38,220,653
Restricted for:	
Capital Projects	20,005,156
Debt Service	870,268
Set Asides	395,967
Unrestricted	<u>(9,217,650)</u>
<i>Total Net Assets</i>	<u>\$50,274,394</u>

See accompanying notes to the basic financial statements

Alliance City School District
Statement of Net Assets
June 30, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$13,861,539	\$87,856	\$1,492,519	\$8,071,546	(\$4,209,618)
Special	3,667,119	8,868	787,049	538,103	(2,333,099)
Vocational	1,254,501	0	70,787	0	(1,183,714)
Adult/Continuing	74,412	229,964	0	0	155,552
Other	294,601	15,559	23,179	0	(255,863)
Support Services:					
Pupil	1,445,513	0	311,378	538,103	(596,032)
Instructional Staff	1,083,296	0	326,595	896,839	140,138
Board of Education	20,193	0	0	0	(20,193)
Administration	2,409,401	0	148,447	179,368	(2,081,586)
Fiscal	201,040	0	0	0	(201,040)
Business	66,029	0	27,390	0	(38,639)
Operation and Maintenance of Plant	3,872,170	0	38,850	6,277,870	2,444,550
Pupil Transportation	563,149	0	0	179,368	(383,781)
Central	101,876	0	7,890	358,735	264,749
Operation of Non-Instructional					
Services	94,287	53,596	113,481	0	72,790
Food Service Operations	1,857,370	332,905	898,837	0	(625,628)
Extracurricular Activities	560,251	386,151	0	896,839	722,739
Interest and Fiscal Charges	651,236	0	113,634	0	(537,602)
Totals	<u>32,077,983</u>	<u>1,114,899</u>	<u>4,360,036</u>	<u>17,936,771</u>	<u>(8,666,277)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	7,027,736
Debt Service	288,648
Grants and Entitlements not Restricted to Specific Programs	14,312,871
Investment Earnings	55,207
Sale of Fixed Assets	1,950,000
Miscellaneous	660,538
	<u>24,295,000</u>
<i>Total General Revenues</i>	24,295,000
Change in Net Assets	15,628,723
<i>Net Assets Beginning of Year - (See Note 3)</i>	<u>34,645,671</u>
<i>Net Assets End of Year</i>	<u><u>\$50,274,394</u></u>

See accompanying notes to the basic financial statements

Alliance City School District
Balance Sheet
Governmental Funds
June 30, 2003

	General	School Facilities	Other Governmental Funds	Total
Assets				
Equity in Pooled Cash and Cash Equivalents	\$217,160	\$14,411,274	\$4,873,151	\$19,501,585
Receivables:				
Property Taxes Receivable	5,878,417	0	1,273,949	7,152,366
Accounts Receivable	16,448	0	21,953	38,401
Intergovernmental Receivable	19,217	154,527	193,215	366,959
Accrued Interest	0	0	966	966
Interfund Receivable	40,987	0	0	40,987
Prepaid Items	9,296	0	0	9,296
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	395,967	0	0	395,967
Materials and Supplies Inventory	49,884	0	38,772	88,656
<i>Total Assets</i>	<u>\$6,627,376</u>	<u>\$14,565,801</u>	<u>\$6,402,006</u>	<u>\$27,595,183</u>
Liabilities				
Accounts Payable	\$139,229	\$951,097	\$53,822	\$1,144,148
Accrued Wages	2,753,512	0	610,320	3,363,832
Intergovernmental Payable	393,742	0	81,665	475,407
Interfund Payable	0	0	40,987	40,987
Deferred Revenue	5,487,557	0	1,148,429	6,635,986
<i>Total Liabilities</i>	<u>8,774,040</u>	<u>951,097</u>	<u>1,935,223</u>	<u>11,660,360</u>
Fund Balances				
Reserved for Encumbrances	76,167	3,741,404	165,269	3,982,840
Reserved for Textbooks and Instructional Items	393,013	0	0	393,013
Reserved for Capital Improvements	2,954	0	0	2,954
Reserved for Prepaid Items	9,296	0	0	9,296
Reserved for Taxes	390,860	0	125,520	516,380
Unreserved, Undesignated, Reported in:				
General Fund	(3,018,954)	0	0	(3,018,954)
Special Revenue Funds	0	0	1,662,300	1,662,300
Debt Service Funds	0	0	834,168	834,168
Capital Projects Funds	0	9,873,300	1,679,526	11,552,826
<i>Total Fund Balances</i>	<u>(2,146,664)</u>	<u>13,614,704</u>	<u>4,466,783</u>	<u>15,934,823</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,627,376</u>	<u>\$14,565,801</u>	<u>\$6,402,006</u>	<u>\$27,595,183</u>

See accompanying notes to the basic financial statements

Alliance City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

Total Governmental Funds Balances \$15,934,823

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds 49,558,428

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:
 Property Taxes 389,622

Long-term liabilities are not due and payable in the current period and
 therefore are not reported in the funds:

Intergovernmental	(190,808)	
Compensated Absences	(3,051,674)	
Bonds Payable	(11,289,990)	
Accrued Benefits	(1,028,222)	
Accrued Interest Payable	(47,785)	
		(15,608,479)

Net Assets of Governmental Activities \$50,274,394

Alliance City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	School Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$6,228,849	\$0	\$1,547,792	\$7,776,641
Intergovernmental	14,312,871	16,498,880	5,519,033	36,330,784
Interest	41,517	252,320	40,264	334,101
Tuition and Fees	142,018	0	283,560	425,578
Extracurricular Activities	0	0	356,416	356,416
Charges for Services	0	0	332,905	332,905
Miscellaneous	115,154	0	545,384	660,538
<i>Total Revenues</i>	<u>\$20,840,409</u>	<u>\$16,751,200</u>	<u>\$8,625,354</u>	<u>\$46,216,963</u>
Expenditures				
Current:				
Instruction:				
Regular	\$9,738,289	\$0	\$2,087,446	\$11,825,735
Special	2,427,341	0	1,184,535	3,611,876
Vocational	1,147,557	0	130,576	1,278,133
Adult/Continuing	0	0	69,243	69,243
Other Instruction	293,885	0	(55)	293,830
Support Services:				
Pupil	868,419	0	538,560	1,406,979
Instructional Staff	541,909	0	479,500	1,021,409
Board of Education	20,193	0	0	20,193
Administration	1,785,975	0	614,309	2,400,284
Fiscal	210,008	0	0	210,008
Business	50,122	0	16,249	66,371
Operation and Maintenance of Plant	2,839,933	0	562,874	3,402,807
Pupil Transportation	528,032	0	(1,027)	527,005
Central	33,024	0	38,450	71,474
Operation of Non-Instructional Services	0	0	157,269	157,269
Food Service Operations	0	0	1,782,352	1,782,352
Extracurricular Activities	312,631	0	188,231	500,862
Capital Outlay	28,257	22,726,362	251,786	23,006,405
Debt Service:				
Principal	0	0	505,000	505,000
Interest and Fiscal Charges	0	0	603,451	603,451
<i>Total Expenditures</i>	<u>20,825,575</u>	<u>22,726,362</u>	<u>9,208,749</u>	<u>52,760,686</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>14,834</u>	<u>(5,975,162)</u>	<u>(583,395)</u>	<u>(6,543,723)</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	0	1,950,000	1,950,000
Advances In	15,539	0	0	15,539
Advances Out	(15,539)	0	0	(15,539)
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>1,950,000</u>	<u>1,950,000</u>
<i>Net Change in Fund Balances</i>	14,834	(5,975,162)	1,366,605	(4,593,723)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	(2,161,498)	19,589,866	3,100,178	20,528,546
<i>Fund Balances End of Year</i>	<u>(\$2,146,664)</u>	<u>\$13,614,704</u>	<u>\$4,466,783</u>	<u>\$15,934,823</u>

See accompanying notes to the basic financial statements

Alliance City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$4,593,723)

*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 assets additions exceeded depreciation expense

Capital Asset Additions	23,550,071	
Current Year Depreciation	2,128,154	21,421,917

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

Property Taxes	(460,257)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

505,000

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

(47,785)

Expenditures in the statements of activities that do not provide current financial resources are not reported as expenditures in the funds.

Benefits Payable	(1,028,222)
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Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions and benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(151,761)	
Intergovernmental Payable	(16,446)	(168,207)

Change in Net Assets of Governmental Activities

\$15,628,723

See accompanying notes to the basic financial statements

Alliance City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget (Non-GAAP) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property Taxes	\$6,139,947	\$6,139,947	\$5,977,158	(162,789)
Intergovernmental	14,815,448	14,131,437	14,309,997	178,560
Investment Income	150,000	150,000	41,671	(108,329)
Tuition and Fees	119,000	119,000	136,683	17,683
Other	55,000	55,000	109,898	54,898
<i>Total Revenues</i>	21,279,395	20,595,384	20,575,407	(19,977)
Expenditures				
Current:				
Instruction:				
Regular	10,796,817	9,668,750	9,801,687	(132,937)
Special	2,105,000	2,368,429	2,424,198	(55,769)
Vocational	1,070,500	1,256,920	1,166,918	90,002
Other	260,000	277,488	277,488	0
Support Services:				
Pupil	894,500	824,475	871,613	(47,138)
Instructional Staff	542,500	547,461	556,780	(9,319)
Board of Education	21,000	20,337	20,200	137
Administration	1,785,500	1,779,270	1,795,207	(15,937)
Fiscal	203,000	214,084	210,521	3,563
Business	61,000	66,046	50,237	15,809
Operation and Maintenance of Plant	2,507,500	2,839,938	2,854,067	(14,129)
Pupil Transportation	476,500	619,275	528,753	90,522
Central	32,500	41,800	32,907	8,893
Extracurricular Activities	0	864,316	308,159	556,157
Facilities Acquisition and Construction Services	28,000	28,275	28,257	18
<i>Total Expenditures</i>	20,784,317	21,416,864	20,926,992	489,872
<i>Excess of Revenues Over (Under) Expenditures</i>	495,078	(821,480)	(351,585)	469,895
Other Financing Sources (Uses)				
Advances In	0	0	15,539	15,539
Advances Out	0	0	(34,460)	(34,460)
<i>Total Other Financing Sources (Uses)</i>	0	0	(18,921)	(18,921)
<i>Net Change in Fund Balance</i>	495,078	(821,480)	(370,506)	450,974
<i>Fund Balance Beginning of Year</i>	727,470	727,470	727,470	0
Prior Year Encumbrances Appropriated	94,010	94,010	94,010	0
<i>Fund Balance End of Year</i>	\$1,316,558	\$0	\$450,974	\$450,974

See Accompanying Notes to the Basic Financial Statements

Alliance City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$19,598	\$116,670
Accounts Receivable	18	483
<i>Total Assets</i>	\$19,616	\$117,153
 Liabilities		
Accounts Payable	0	\$271
Due to Others	0	116,882
<i>Total Liabilities</i>	0	\$117,153
 Net Assets		
Held in Trust for Scholarships	\$19,616	

See accompanying notes to the basic financial statements

Alliance City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2003

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions	
Interest	\$286
Miscellaneous	<u>18</u>
<i>Total Additions</i>	<u>304</u>
Deductions	
Other Operating Expenses	<u>1,300</u>
<i>Change in Net Assets</i>	(996)
<i>Net Assets Beginning of Year</i>	<u>20,612</u>
<i>Net Assets End of Year</i>	<u><u>\$19,616</u></u>

See accompanying notes to the basic financial statements

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2002, was 3,342. The School District employed 271 certified employees and 167 non-certified employees.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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 Alliance City School District, this includes general operations, food service, and student related activities of the School District.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or 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. There are no component units of the Alliance City School District.

The School District is associated with certain organizations which are defined as Jointly Governed Organizations and a Public Entity Risk Pool. They include the Stark/Portage Area Computer Consortium (SPARCC), the Ohio School Board Association Workers' Compensation Group Rating Program, and the Stark County Schools Council of Governments risk sharing pool. These organizations are presented in Note 15 and Note 16 to the financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds

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

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

Classroom Facilities Fund - To account for the accumulation of resources to be used for the acquisition or construction of major capital facilities.

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

Fiduciary Funds

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

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.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and 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. “Measurable” means the amount of the transaction can be determined and “available” means collectible

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of 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 in which the taxes are earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 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.

Expenditures/Expenses

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled in various accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2003 the School District's investments were limited to STAROhio, the State Teacher's Investment Pool and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating contracts such as certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share's price which is the price the investment could be sold for on June 30, 2003.

Investments of the cash management pool and investments with maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventories consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets represent cash and cash equivalents set aside to establish a budget stabilization reserve. Restricted assets also include the amount required by State statute to be set aside to create a reserve for instructional materials and capital improvements. See Note 19 for additional information regarding set asides.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The 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 capitalized.

All reported capital assets, other than 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:

Description	Estimated Lives
Buildings and Building Improvements	5-40 years
Furniture, Fixtures, and Equipment	5-15 years
Vehicles	5-10 years
Textbooks and Library Books	7-10 years

K. Interfund Balances

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

L. 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 School District 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 vested 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 Districts past experience of making termination payments.

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

Unpaid compensated absences that are normally expected to be paid using expendable available financial resources are reported as a liability on the government fund financial statements.

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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. Bonds are recognized as a liability on the governmental fund financial statements when due.

N. Net Assets

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

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

O. Fund Balance Reserves

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

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

P. Interfund Transactions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in fiscal 2003.

R. Estimates

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

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

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB 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”. At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 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.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The government-wide financial statements consist of the School District's programs governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34 including the required content of Management's 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.

B. Restatement of Fund Balance

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 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.

	General	School Facilities	Nonmajor Govt. Funds	Total Governmental Activities
Fund Balance June 30, 2002	\$ (2,363,204)	\$19,589,866	\$ 3,049,719	\$20,276,381
Implementation of GASB Interpretation Number 6	201,706	0	50,459	252,165
Restated Fund Balance, June 30, 2002	<u>\$ (2,161,498)</u>	<u>\$19,589,866</u>	<u>\$ 3,100,178</u>	20,528,546
GASB 34 Adjustments:				
Property Taxes				849,879
Capital Assets				28,136,511
Long-Term Liabilities				(14,869,265)
Governmental Activities Net Assets, June 30, 2002				<u>\$34,645,671</u>

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4 - Accountability

A. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

<u>Major Fund</u>	
General Fund	\$2,146,664
<u>Non Major Funds</u>	
Auxiliary Services	3,672
Career Development	5,566
Teacher Development	86
Public School	279
D.P.I.A	169,424
Title II	238
Vocational Education	1,363
Title I	146,928
Preschool Grant	408
CIP Implementation Grant	1,009

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 Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are the following:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

GAAP Basis	\$ 14,834
Net Adjustment for Revenue Accruals	(265,002)
Net Adjustment for Expenditure Accruals	(101,417)
Advance Out	(18,921)
Budget Basis	<u>\$ (370,506)</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 the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education).

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

At fiscal year end, the carrying amount of the School District's deposits was \$(89,359) and the bank balance was \$343,583. Of the bank balance, \$100,000 was covered by federal depository insurance and \$243,583 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered 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 for which the securities 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. The School District invests in STAROhio, an investment pool operated by the Ohio State Treasurer, which is an unclassified investment since it is not evidenced by securities that exist in physical bank entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$ 746,914	\$ 746,914	\$ 746,914
STAROhio		19,376,265	19,376,265
Total		\$ 20,123,179	\$ 20,123,179

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9.

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 20,033,820	\$ 0
Investments which are part of a cash management pool:		
Repurchase Agreements	(746,914)	746,914
STAROhio	(19,376,265)	19,376,265
GASB Statement No. 3	\$ (89,359)	\$20,123,179

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20.

Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Stark, Columbiana, and Mahoning Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, 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 represent delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. 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 is deferred.

The amount available as an advance at June 30, 2003, was \$390,860 in the General Fund and \$125,520 in Other Governmental Funds.. The amount available as an advance at June 30, 2002 was \$139,170 in the General Fund and \$44,720 in the Debt Service Fund.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$ 152,358,680	61.30%	\$ 152,959,150	63.26%
Commercial/Industrial	47,019,780	18.92	43,391,790	17.94
General	36,964,324	14.87	33,375,210	13.80
Public Utilities	12,196,690	4.91	12,085,870	5.00
Total Assessed Value	<u>\$ 248,539,474</u>	<u>100.00%</u>	<u>\$ 241,812,020</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 54.40		\$ 54.40	

Note 8 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (tuition and fees), intergovernmental, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amount
General Fund	\$ 19,217
School Facilities	154,527
Food Service	179,708
Adult Continuing Education	4,467
Other Local Grants	9,040
Total Intergovernmental Receivables	<u>\$ 366,959</u>

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Governmental Activities				
Land	\$ 1,288,837	\$ 0	\$ 0	\$ 1,288,837
Buildings and Improvements	36,914,621	22,117,230	(1,950,000)	57,081,851
Furniture, Fixtures and Equipment	4,381,770	1,351,074	0	5,732,844
Vehicles	1,122,058	81,767	0	1,203,825
Textbooks and Library Books	798,179	0	0	798,179
Totals at Historical Cost	<u>44,505,465</u>	<u>23,550,071</u>	<u>(1,950,000)</u>	<u>66,105,536</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(10,974,560)	(1,604,625)	1,950,000	(10,629,185)
Furniture, Fixtures, and Equipment	(3,621,782)	(453,211)	0	(4,074,993)
Vehicles	(974,433)	(70,318)	0	(1,044,751)
Textbooks and Library Books	(798,179)	0	0	(798,179)
Total Accumulated Depreciation	<u>(16,368,954)</u>	<u>(2,128,154)</u>	<u>1,950,000</u>	<u>(16,547,108)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 28,136,511</u>	<u>\$(21,421,917)</u>	<u>\$ 0</u>	<u>\$ 49,558,428</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 729,367
Special	56,234
Vocational	53,624
Other	4,654
Support Services:	
Pupil	42,170
Instructional Staff	61,707
Administration	15,089
Business	698
Operation and Maintenance of Plant	1,016,360
Pupil Transportation	47,923
Central	32,720
Operation of Non-Instructional Services	3,645
Food Services	5,261
Extracurricular Activities	58,702
Total Depreciation Expense	<u>\$ 2,128,154</u>

Note 10 - Interfund Assets/Liabilities

On the fund financial statements, the general fund reported on interfund receivable at June 30, 2003 of \$40,987. The other local grants special revenue fund had an interfund payable in the amount of \$8,227 and the career development special revenue fund reported an interfund payable of \$3,386, and the Carl Perkins grant special revenue reported an interfund payable in the amount of \$29,374. These loans were made to support programs and projects in these special revenue funds.

Note 11 - Risk Management

A. Property and Liability Insurance

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 2003, the School District contracted with Selective Insurance Company of South Carolina for property, general liability, fleet, umbrella, and inland marine insurance. Selective Insurance Company of South Carolina covers boiler and machinery with a \$40,000,000 single occurrence limit and a \$1,000 deductible. Vehicles have a \$500 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability.

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

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

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$566,400, \$571,656 and \$540,630, respectively; 49.47 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$286,214.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Define Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employee contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,105,604, \$2,038,116, and \$1,870,692, respectively; 83.66 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$344,080.

Note 13 - Post-Employment Benefits

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. As of July 1, 2002, eligible benefit recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 (the latest information available).

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

For the fiscal year, employer contributions to fund health care benefits were 5.83 percent (8.5% in 2002) of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. The number of participants currently receiving health care benefits is 50,000. For the fiscal year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777 (the latest information available).

Note 14 - Employee Benefits

A. Compensated Absences

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

All employees are entitled to a sick leave credit equal to 1 ¼ days for each month of service. This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to 47 days of sick leave. The total maximum is 47 days for certified employees and 49 days for noncertified employees. The School District accounts for compensated absences in accordance with GASB Statement No. 16 and using the vested method.

Note 15 - Jointly Governed Organizations

A. Stark/Portage Area Computer Consortium (SPARCC):

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

Note 16 – Public Entity Risk Pool

A. Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan is a risk sharing pool created pursuant to state statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by the grouping with other members of the Health Benefits Program. The experiences of all participating districts are calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding twelve month period.

B – Insurance Purchasing Pool

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

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

C – Stark County Schools Council of Government Health Benefit Plan

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

Note 17 – Contingencies

A. State School Funding Decision

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

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

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 18 – Long-Term Debt

The changes in long-term obligations of the School District during the 2003 fiscal year were as follows:

	<u>Principal Outstanding 6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/03</u>	<u>Amounts Due in One Year</u>
General Obligation Bonds:					
School Improvements Bond, 6.68%	\$ 1,290,000	\$ 0	\$ 230,000	\$ 1,060,000	\$240,000
OSFC Matching Funds Bond, 6.03%	9,149,990	0	245,000	8,904,990	260,000
OSFC Land Acquisition Bond 5.86%	<u>1,355,000</u>	<u>0</u>	<u>30,000</u>	<u>1,325,000</u>	<u>35,000</u>
Total General Obligation Bonds	<u>11,794,990</u>	<u>0</u>	<u>505,000</u>	<u>11,289,990</u>	<u>535,000</u>
SERS Payable	174,362	0	174,362	0	0
Compensated Absences	<u>2,647,748</u>	<u>403,926</u>	<u>0</u>	<u>3,051,674</u>	<u>109,230</u>
Total General Long-Term Obligations	<u>\$14,617,100</u>	<u>\$403,926</u>	<u>\$679,362</u>	<u>\$14,341,664</u>	<u>\$644,230</u>

General obligation bonds will be paid from tax revenues in the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 535,000	\$ 573,424	\$ 1,108,424
2005	580,000	541,304	1,121,304
2006	630,000	506,473	1,136,473
2007	670,000	469,056	1,139,056
2008	405,000	439,851	844,851
2009-2013	1,184,175	3,237,258	4,421,433
2014-2018	2,950,815	1,742,938	4,693,753
2019-2023	<u>4,335,000</u>	<u>644,155</u>	<u>4,979,155</u>
Total	<u>\$11,289,990</u>	<u>\$ 8,154,459</u>	<u>\$ 19,444,449</u>

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 19 - Set-Asides

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2003.

	Textbooks/ Instructional Materials	Capital Improvements	Budget Stabilization
Balance June 30, 2002	\$ 221,270	\$ 2,954	\$ 409,012
Current Year Set Aside Requirement	444,830	444,830	0
Qualifying Expenditures	(273,087)	(444,830)	(409,012)
Balance June 30, 2003	<u>\$ 393,013</u>	<u>\$ 2,954</u>	<u>\$ 0</u>
Amount Carried Forward to Fiscal Year 2004	<u>\$ 393,013</u>	<u>\$ 2,954</u>	<u>\$ 0</u>

Note 20 – Construction Commitments

As of June 30, 2003, the School District has commitments with the following companies for renovation and construction of the new middle school and new elementary school, renovations for the high school and elementary schools, and various other renovations.

	Contract Amount	Contract Completed	Estimated Amount of Contract Outstanding
Stanley Miller Construction	\$ 6,173,668	\$ 5,337,249	\$ 836,419
Golub Mechanical (Plumbing)	878,809	822,434	56,375
Central Fire Protection	503,261	460,437	42,824
AA Samuels (HVAC)	6,364,461	5,946,011	418,450
Valley Electrical	2,498,321	2,338,801	159,520
Riccuiti Balog Architects	730,200	626,755	103,445
US Communication (Tech/Comm)	280,326	239,990	40,336
Sound.Com (Tech/Security)	230,750	209,110	21,640
Sound.Com (Sound Sys)	324,915	270,693	54,222
Sound.Com (Tech/Video)	825,015	649,323	175,692
Warwick Communication	222,905	183,070	39,835
Xi-Tech	261,960	254,552	7,408

Estimated
Amount of

Alliance City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

	Contract Amount	Contract Completed	Contract Outstanding
School Specialty	1,179,867	881,788	298,079
Martin Public Seating	71,471	53,591	17,880
Holcomb's	198,901	168,010	30,891
Ricciuti Balog Architects	30,000	5,000	25,000
Thompson Mechanical – South	986,248	959,730	26,518
Hively Construction	4,096,087	3,312,459	783,628
Feinman Mechanical	321,651	317,851	3,800
Fire Foe	123,150	113,180	9,970
NGN Electrical	551,012	498,134	52,878
David Williams & Assoc.	63,093	62,505	588
Knoch Corp	906,015	68,104	837,911
Ellyson Plumbing & Heating	38,401	10,707	27,694
RWJ Corp	98,313	0	98,313
Western Reserve Mechanical	352,100	94,760	257,340
Spring Electric Co.	201,006	0	201,006
Ricciuti Balog Architects	147,000	102,900	44,100
Ricciuti Balog Architects	218,000	152,600	65,400
Total	<u>\$ 28,876,906</u>	<u>\$ 24,139,744</u>	<u>\$ 4,737,162</u>

**Alliance City School District - Stark County
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2003**

Federal Grantor/Sub Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. Department of Education</u>						
Passed through the State Department of Education						
Title 1 - Education						
Consolidated Improvement Act of 1998	84.010	043497-C1-S1	\$ 992,592	\$ -	\$ 1,166,370	\$ -
Total Title 1			<u>992,592</u>	<u>-</u>	<u>1,166,370</u>	<u>-</u>
Title VI - Education Consolidation and Improvement Act of 1981						
	84.298	043497-C2-S1	23,990	-	36,860	-
Total Title VI			<u>23,990</u>	<u>-</u>	<u>36,860</u>	<u>-</u>
Special Education Cluster: Title VI-B - Education of Handicapped Children Act						
	84.027	043497-6B-SF	442,495	-	483,074	-
Total Title VI-B			<u>442,495</u>	<u>-</u>	<u>483,074</u>	<u>-</u>
Title VI-B - Preschool						
	84.173	043497-PG-S1	16,998	-	19,921	-
Total Title VI-B - Preschool			<u>16,998</u>	<u>-</u>	<u>19,921</u>	<u>-</u>
Drug Free Schools Grant						
	84.186	043497-DR-S1	27,086	-	29,303	-
Total Drug Free Schools Grant			<u>27,086</u>	<u>-</u>	<u>29,303</u>	<u>-</u>
Carl Perkins Grant						
	84.048	04349720	235,042	-	266,729	-
Total Carl Perkins Grant			<u>235,042</u>	<u>-</u>	<u>266,729</u>	<u>-</u>
Northside CSR Grant						
	84.332		100,000	-	98,000	-
Total Northside CSR Grant			<u>100,000</u>	<u>-</u>	<u>98,000</u>	<u>-</u>
Community Service - Bureau of Vocational Rehab						
	84.126	43497	3,485	-	3,485	-
Total Bureau of Vocational Rehab			<u>3,485</u>	<u>-</u>	<u>3,485</u>	<u>-</u>
Title II-D Technology						
	84.318		26,592	-	11,105	-

**Alliance City School District - Stark County
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2003**

Federal Grantor/Sub Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Total Title II-D technology			26,592	-	11,105	-
Title VI-R	84.340	N/A	(528)	-	19,748	-
Total Title VI-R			(528)	-	19,748	-
Title II-A	84.367	N/A	247,266	-	179,984	-
Total Title II-A			247,266	-	179,984	-
21st Century Community Learning Centers	84.287	43497	260,928	-	197,711	-
Total 21st Century Community Learning Centers			260,928	-	197,711	-
SPED Schoolnet 2002/03	84.352		8,419	-	11,294	-
Total SPED Schoolnet 2002/03			8,419	-	11,294	-
Character in Education	84.215		95,289	-	95,289	-
Total Character in Education			95,289	-	95,289	-
Title II Eisenhower	84.281		-	-	22,686	-
Total Title II Eisenhower			-	-	22,686	-
Drug & Violence Prevention	84.184		81,984	-	81,984	-
Total Drug & Violence Prevention			81,984	-	81,984	-
Total U.S. Department of Education			2,561,638	-	2,723,543	-
<u>U.S. Department of Education</u>						
Student Financial Assistance Center						
Pell Grant	84.063	N/A	200,399	-	200,399	-
Stafford Student Loan	84.032	N/A	13,774	-	13,774	-
Total U.S. Department of Education Student Financial Assistance Cluster			214,173	-	214,173	-

**Alliance City School District - Stark County
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2003**

Federal Grantor/Sub Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. Department of Health and Human Services</u>						
Passed through Ohio Department of MRDD						
Medical Assistance Program	93.778	43497	182,266	-	182,266	-
Passed through Stark County						
Social Service Block Grant (JOBS)	93.667	43497	18,777	-	18,777	-
Total U.S. Department of Health and Human Services			201,043	-	201,043	-
<u>U.S. Department of Housing and Urban Development</u>						
Federal Block Grant from City of Alliance	14.218	N/A	10,600	-	10,600	-
Total U.S. Department of Housing and Urban Development			10,600	-	10,600	-
<u>U.S. Department of Agriculture</u>						
Passed through the State Department of Education						
Child Nutrition Cluster						
Food Distribution Program	10.550 (A)	43497	-	134,925	-	134,925
National School Breakfast Program	10.553	043497-05-PU	145,129	-	145,129	-
National School Lunch Program	10.555 (B)	043497-03-PU	594,738	-	594,738	-
National School Summer Feeding	10.559	043497-24-AD	36,845	-	36,845	-
Total U.S. Department of Agriculture			776,712	134,925	776,712	134,925
Total Federal Financial Assistance			\$ 3,764,166	\$ 134,925	\$ 3,926,071	\$ 134,925

(A) Valued at fair market value less cost to the School District, assumed expended on a first-in, first-out basis.

(B) Commingled with state and local funds. Assumed expended on a first-in, first-out basis.

This schedule is prepared on the cash basis of accounting.

**Independent Auditors' Report on Compliance and on Internal Control
Required by Government Auditing Standards**

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

We have audited the basic financial statements of the Alliance City School District (the District), as of and for the year ended June 30, 2003 and have issued our report thereon dated December 31, 2003, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34. 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 Alliance City School 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Alliance City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Moore Stephens Apple

Akron, Ohio
December 31, 2003

**Independent Auditors' Report on Compliance with Requirements
Applicable to Major Federal Programs and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Alliance City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Alliance City School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Alliance City School District's management. Our responsibility is to express an opinion on Alliance City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, 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 Alliance City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Alliance City School District's compliance with those requirements.

In our opinion, Alliance City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

Moore Stephens Apple

Akron, Ohio
December 31, 2003

Alliance City School District -
Schedule of Findings and Questioned Costs
June 30, 2003

1. Summary of Auditors' Results

Unqualified opinion was issued on the financial statements.

Material control weaknesses at the financial statement level – none noted.

Other reportable control weaknesses at the financial statement level – none noted.

There was no material non-compliance at the financial statement level.

Reportable control weaknesses for major federal programs – none noted.

For those items tested, there was no material non-compliance for major federal programs.

Unqualified opinion was issued on major programs compliance.

The audit disclosed no findings under OMB Circular A-133.

The District's major programs tested were Title 1 – CFDA #84.010 and the Medical Assistance Program – CFDA #93.778.

The dollar threshold used for Type A Programs was \$300,000 and Type B programs were all other programs.

The Auditee was low risk.

2. There were no audit findings or questioned costs for federal awards during the year ended June 30, 2003.
3. There were no audit findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards for the year ended June 30, 2003.

Alliance City School District – Stark County

Schedule of Prior Audit Findings

June 30, 2003

The prior audit report of the Alliance City School District, issued as of June 30, 2002, included no citation and no recommendations.



**Auditor of State
Betty Montgomery**

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ALLIANCE CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 24, 2004**