



**Auditor of State
Betty Montgomery**

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Conneaut Area City School District
Ashtabula County
263 Liberty Street
Conneaut, Ohio 44030

To The Board of Education:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, 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 20, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments* and GASB Interpretation No.6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004, 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 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 inquires 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 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Schedule of Federal Awards Expenditures replaces the Schedule in Conneaut Area City School District's previously-issued fiscal year ended June 30, 2003 report package. The Schedule was revised to include page 60 which was previously omitted.

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

Betty Montgomery
Auditor of State

May 26, 2004, except for the last two paragraphs, which are dated August 12, 2004.

Conneaut Area City School District
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of Conneaut Area City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

Overall:

- For governmental activities, net assets increased \$7.93 million, which represents a 41 percent increase from 2002. Net assets of business-type related activities increased \$21,839 or 17 percent from 2002.
- General revenues accounted for \$16.4 million in revenue or 64 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9.3 million or 36 percent of total governmental revenues of \$25.7 million.
- The District had \$17.8 million in expenses related to governmental activities; only \$9.3 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$16.4 million were adequate to provide for these programs.
- Among major funds, the general fund had \$15.4 million in revenues and \$15.2 million in expenditures. The general fund's fund balance increased to \$2.6 million from \$2.4 million.
- The debt service fund had \$0.66 million in revenue and \$0.85 million in expenditures. The debt service fund's fund balance decreased by \$0.18 million.
- The construction project fund had \$7.4 million in revenue and \$6.5 million in expenditures, which resulted an increase of the fund balance from \$16.6 million to \$17.5 million.

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- Net assets for enterprise funds increased by \$21,839. Total enterprise expenditures were \$704,249, which all of these expenses was offset by program specific charges for services, grants or contributions.

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 Conneaut Area City School District as a financial whole, 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* provides information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of Conneaut Area City School District, the general fund, debt service fund, and construction project fund by far are the most significant funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the 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 basis of accounting 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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Ashtabula County
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In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's lunchroom is reported as business activity.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 18. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund, and construction project fund.

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

Proprietary Fund Proprietary fund uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the District as a whole.

Conneaut Area City School District
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
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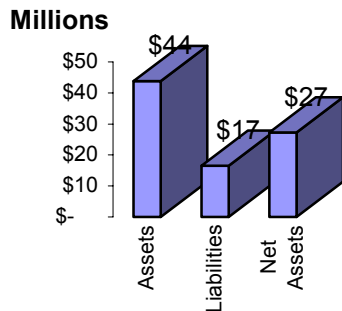
The District as a Whole

Table 1 shows net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement 34, net asset comparisons to prior fiscal years are not available.

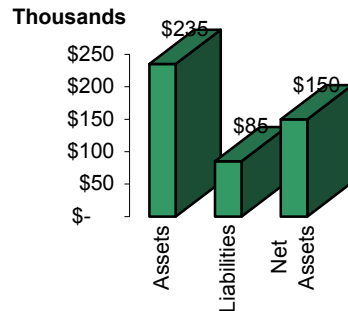
Table 1

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and Other Assets	\$ 31,275,386	\$ 180,776	\$ 31,456,162
Capital Asset, Net of Accumulated Depreciation	12,548,739	54,493	12,603,232
<i>Total Assets</i>	43,824,125	235,269	44,059,394
Liabilities:			
Current Liabilities	8,136,094	72,697	8,208,791
Long-term Liabilities	8,413,295	12,652	8,425,947
<i>Total Liabilities</i>	16,549,389	85,349	16,634,738
Net Assets:			
Invested in Capital Assets, Net of Debt	5,503,925	54,493	5,558,418
Restricted	20,290,509	-	20,290,509
Unrestricted	1,480,302	95,427	1,575,729
<i>Total Net Assets</i>	\$ 27,274,736	\$ 149,920	\$ 27,424,656

Governmental Activities



Business-Type Activities



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Ashtabula County
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Unaudited

The table below shows the net changes in net assets for fiscal year 2003. Since this is the first year the District has prepared the financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available.

Table 2

	Governmental Activities	Business-type Activities
Revenue:		
Program Revenues:		
Charges for Services and Sales	\$ 408,274	\$ 261,267
Operating Grants and Contributions	1,716,936	464,821
Capital Grants and Contributions	7,223,972	-
General Revenues:		
Property Taxes	4,966,841	-
Grants and Entitlements	11,096,688	-
Investment Earnings	342,431	-
Miscellaneous	47,092	-
Loss of Sales of Capital Assets	(54,899)	-
Transfers	(14)	-
Total Revenues	25,747,321	726,088
Expenses:		
Instructions:		
Regular	8,035,212	-
Special	1,996,595	-
Vocational	119,129	-
Other	240,308	-
Support Services:		
Pupils	895,279	-
Instructional Staff	1,548,667	-
Board of Education	30,996	-
Administration	1,653,756	-
Fiscal	366,628	-
Business	15,866	-
Operation and Maintenance of Plant	1,297,255	-
Pupil Transportation	723,995	-
Central	11,204	-
Operation of Non-instructional Services	2,429	-
Extracurricular Activities	397,892	-
Fiscal and Interest Charges	359,778	-
Miscellaneous Expenses	120,696	-
Food Services	-	704,249
Total Expenses	17,815,685	704,249
Changes in Net Assets	\$ 7,931,636	\$ 21,839

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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

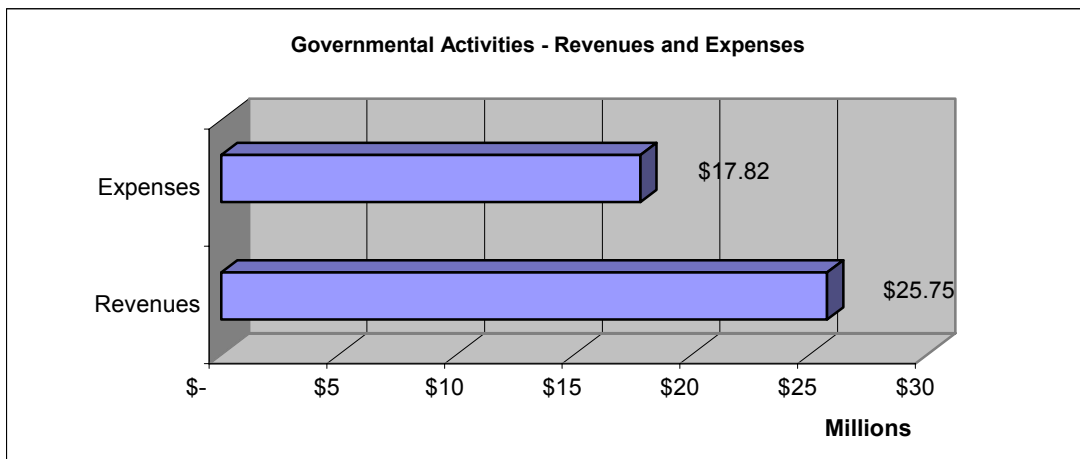
Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 19.3 percent of revenue for governmental activities for Conneaut Area City School District in fiscal year 2003, a slight increase from prior years.

Governmental Activities

Net assets of the District's governmental activities increase by \$7,931,636. The governmental expenses of \$17,815,685 were primarily offset by program revenues of \$9,349,182 and general revenues of \$16,398,139. Program revenues supported 52.2% of the total governmental activities.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 62.4% of total governmental revenue.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2003.



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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. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3

Total and Cost of Program Services
Governmental Activities

	Total Cost of Service	Net Cost of Service
Instruction	\$ 10,391,244	\$ 3,700,036
Support Service:		
Pupils and Instructional Staff	2,443,946	1,094,758
Board of Education, Administration, Fiscal and Business	2,067,246	1,307,172
Operation and Maintenance of Plant	1,297,255	1,265,055
Pupil Transportation	723,995	690,170
Central	11,204	2,065
Operation of Non-instructional Services	2,429	2,429
Extracurricular Activities	397,892	116,695
Miscellaneous Expense	120,696	(71,655)
Interest and Fiscal Charges	359,778	359,778
Total Expenses	\$ 17,815,685	\$ 8,466,503

The dependence upon general tax revenues for governmental activities is apparent. Over 35.5 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 47.5 percent as shown in the above table. The community, as a whole, is by far the primary support for Conneaut Area City School District students.

Business-Type Activities

Business-type activities include only lunchroom operation. The lunchroom had revenues of \$726,088 and expenses of \$704,249 for the fiscal year 2003. This resulted in a increase to net assets for the fiscal year of \$21,839. The lunchroom is self-supporting through user fees and charges. The management assesses their performance to ensure that it is run efficiently.

Conneaut Area City School District
Ashtabula County
Management's Discussion and Analysis
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The District's Funds

Information about the District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$25.8 million and expenditures of \$24.7 million. The net change in fund balance for the year was most significant in the construction project fund, where the construction project fund's net assets increased by \$.94 million for fiscal year 2003.

General Fund Budgeting Highlights

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

During the course of fiscal year 2003 the District amended its General Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$16.9 million, over the original budget estimate of \$16.3 million. Of this \$0.6 million difference, personal property tax revenue was approximately \$.4 million and miscellaneous revenue was approximately \$.2 million over original estimates. These two revenue line items fluctuate year to year and are budgeted on a conservative basis to avoid revenue overestimations.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$16.9 million, \$0.01 million below revenues.

Capital Assets and Debt Administration

At the end of fiscal year 2003, the District had \$12.6 million (net) invested in land, construction in progress, buildings, equipment and vehicles. \$12.5 million (net) are in governmental activities.

Table 4 shows fiscal 2003 gross capital asset balances for governmental type activities and business-type activities (net of accumulated depreciation) compared to the prior fiscal year.

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Ashtabula County
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Unaudited

Table 4

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities	
	2003	2002	2003	2002
Land and Improvements	\$ 1,139,504	\$ 1,102,343	\$ -	\$ -
Buildings and Improvements	2,000,566	2,129,647	-	-
Furniture/Equipment/Fixtures	669,001	685,861	44,126	49,561
Vehicles	478,307	507,404	10,367	13,329
Construction in Progress	8,261,361	1,791,458	-	-
Total Capital Assets, Net	<u>\$ 12,548,739</u>	<u>\$ 6,216,713</u>	<u>\$ 54,493</u>	<u>\$ 62,890</u>

The increase in capital assets is due to recognized \$360,121 in depreciation expense for 2003, offset by \$6,738,833 acquisitions. These acquisitions were distributed among land, furniture, equipment, vehicles and construction in progress. The District also retired \$199,636 of capital assets, which result of \$54,899 in loss of sale of capital assets. The District continued its ongoing commitment to maintaining and improving its capital assets.

The District is building a new high school facility, and it will be completed and be opened in fiscal year 2005.

Set-Aside Requirements

For fiscal year 1999, a change in Ohio law required school districts to set aside two percent of certain revenues for capital improvements and an additional two-percent for textbooks; this amount was increased to three percent beginning in fiscal year 2000. For fiscal year 2003, this amounted to \$334,116 for each set aside. For fiscal year 2003, the District did not carry any cash balance forward to fiscal year 2004.

Debt

At June 30, 2003, the District had \$7,044,814 in general obligation bonds and notes outstanding. Of this total, \$475,406 is due within one year and \$6,569,408 is due more than one year. The following table summarizes the bonds and notes outstanding.

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Ashtabula County
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For the Fiscal Year Ended June 30, 2003
Unaudited

Table 5

Outstanding Debt, at Year End

	Governmental Activities	
	2003	2002
General Obligation Bonds	\$ 6,950,895	\$ 7,335,895
Energy Notes	75,000	150,000
Asbestos Notes	18,919	24,325
Total	\$ 7,044,814	\$ 7,510,220

Current Financial Related Activities

Conneaut Area City School District is strong financially. As the preceding information shows, the District heavily depends on its property taxpayers. With the passage of a 6.9 mill operating levy and collection beginning January 2002 the District has been able to continue its education programs. However, financially the future is not without challenges.

While the District was successful in increasing its tax revenue base in 2000, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast.

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset to decreases in state foundation payments. With its major sources of revenue not keeping pace with expenditure increases, the District must seek additional tax revenues to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

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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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. Virtually, no additional state revenue will be available to Conneaut Area City School District. Thus, both taxes and state revenue are fixed or declining.

The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Linda Bryan, Treasurer at Conneaut Area City School District, 263 Liberty Street, Conneaut, Ohio 44030.

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Conneaut Area City School District
Ashtabula County
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 25,048,758	\$ 131,697	\$ 25,180,455
Receivables:			
Taxes	5,931,940	-	5,931,940
Accounts	55,724	1,254	56,978
Intergovernmental	183,291	57,107	240,398
Internal Balances	26,802	(26,802)	-
Receivables from Agency Fund	633	-	633
Inventory Held for Resale	-	15,655	15,655
Materials and Supplies Inventory	28,238	1,865	30,103
Nondepreciable Capital Assets	9,290,734	-	9,290,734
Depreciable Capital Assets, Net	3,258,005	54,493	3,312,498
<i>Total Assets</i>	<u>43,824,125</u>	<u>235,269</u>	<u>44,059,394</u>
Liabilities			
Accounts Payable	1,882,308	34,866	1,917,174
Accrued Wages and Benefits	1,770,500	37,519	1,808,019
Intergovernmental Payable	443,426	312	443,738
Deferred Revenue	3,936,959	-	3,936,959
Accrued Interest Payable	27,901	-	27,901
Energy Note Payable	75,000	-	75,000
Long-Term Liabilities:			
Due Within One Year	554,161	450	554,611
Due Within More Than One Year	7,859,134	12,202	7,871,336
<i>Total Liabilities</i>	<u>16,549,389</u>	<u>85,349</u>	<u>16,634,738</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,503,925	54,493	5,558,418
Restricted for:			
Capital Projects	19,669,579	-	19,669,579
Debt Service	337,618	-	337,618
Other Purposes	283,312	-	283,312
Unrestricted (Deficit)	1,480,302	95,427	1,575,729
<i>Total Net Assets</i>	<u>\$ 27,274,736</u>	<u>\$ 149,920</u>	<u>\$ 27,424,656</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$ 8,035,212	\$ 11,286	\$ 250,782	\$ 4,124,013
Special	1,996,595	-	767,283	896,525
Vocational	119,129	-	659	537,915
Other	240,308	102,745	-	-
Support Services:				
Pupils	895,279	-	225,886	537,915
Instructional Staff	1,548,667	-	379,308	206,079
Board of Education	30,996	-	-	-
Administration	1,653,756	-	42,854	717,220
Fiscal	366,628	-	-	-
Business	15,866	-	-	-
Operation and Maintenance of Plant	1,297,255	-	7,200	25,000
Pupil Transportation	723,995	-	33,825	-
Central	11,204	-	9,139	-
Operation of Non-Instructional Services	2,429	-	-	-
Extracurricular Activities	397,892	101,892	-	179,305
Interest and Fiscal Charges	359,778	-	-	-
Miscellaneous Expenses	120,696	192,351	-	-
<i>Total Governmental Activities</i>	<u>17,815,685</u>	<u>408,274</u>	<u>1,716,936</u>	<u>7,223,972</u>
Business-Type Activities				
Food Service	704,249	261,267	464,821	-
<i>Total Business-Type Activities</i>	<u>704,249</u>	<u>261,267</u>	<u>464,821</u>	<u>-</u>
Totals	<u>\$ 18,519,934</u>	<u>\$ 669,541</u>	<u>\$ 2,181,757</u>	<u>\$ 7,223,972</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Maintenance

 Debt Service

 Capital Projects

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Loss on Sales of Capital Assets

Transfers

Total General Revenues

Changes in Net Assets

Net Assets Beginning of Year - As Restated (See Note 20)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,649,131)	\$ -	\$ (3,649,131)
(332,787)	-	(332,787)
419,445	-	419,445
(137,563)	-	(137,563)
(131,478)	-	(131,478)
(963,280)	-	(963,280)
(30,996)	-	(30,996)
(893,682)	-	(893,682)
(366,628)	-	(366,628)
(15,866)	-	(15,866)
(1,265,055)	-	(1,265,055)
(690,170)	-	(690,170)
(2,065)	-	(2,065)
(2,429)	-	(2,429)
(116,695)	-	(116,695)
(359,778)	-	(359,778)
71,655	-	71,655
(8,466,503)	-	(8,466,503)
-	21,839	21,839
-	21,839	21,839
\$ (8,466,503)	\$ 21,839	\$ (8,444,664)
\$ 4,065,763	\$ -	\$ 4,065,763
73,760	-	73,760
569,186	-	569,186
258,132	-	258,132
11,096,688	-	11,096,688
342,431	-	342,431
47,092	-	47,092
(54,899)	-	(54,899)
(14)	-	(14)
16,398,139	-	16,398,139
7,931,636	21,839	7,953,475
19,343,127	128,081	19,471,208
\$ 27,274,763	\$ 149,920	\$ 27,424,683

Conneaut Area City School District
Ashtabula County
Balance Sheet
Governmental Funds
June 30, 2003

	General	Debt Service	Project Construction	Other Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 2,874,008	\$ 294,291	\$ 19,160,747	\$ 2,637,556
Receivables:				
Taxes	4,679,716	931,929	-	320,295
Accounts	9,159	123	45,320	1,122
Intergovernmental	-	26,407	-	156,884
Interfund Receivable	126,418	-	-	-
Due from Other Funds	47,306	-	-	-
Supplies Inventory	28,238	-	-	-
Restricted Cash:				
Cash and Cash Equivalents	82,156	-	-	-
<i>Total Assets</i>	7,847,001	1,252,750	19,206,067	3,115,857
Liabilities				
Accounts Payable	112,627	4,706	1,692,518	72,457
Accrued Wages and Benefits	1,587,527	-	-	182,973
Interfund Payable	-	51,829	-	73,956
Due to Other Funds	-	-	-	28,295
Intergovernmental Payable	306,370	-	-	1,030
Deferred Revenue	3,236,069	848,146	-	256,298
<i>Total Liabilities</i>	5,242,593	904,681	1,692,518	615,009
Fund Balances				
Reserved for:				
Encumbrances	172,873	-	20,847,889	82,188
Textbooks	82,156	-	-	-
Future Appropriation	1,443,647	251,671	-	128,683
Unreserved:				
Undesignated	905,732	96,398	(3,334,340)	2,289,977
<i>Total Fund Balances</i>	2,604,408	348,069	17,513,549	2,500,848
<i>Total Liabilities and Fund Balances</i>	\$ 7,847,001	\$ 1,252,750	\$ 19,206,067	\$ 3,115,857

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003

Total Governmental Funds <hr/> \$ 24,966,602 5,931,940 55,724 183,291 126,418 47,306 28,238 82,156 <hr/> 31,421,675 <hr/> 1,882,308 1,770,500 125,785 28,295 307,400 4,340,513 <hr/> 8,454,801 <hr/> 21,102,950 82,156 1,824,001 (42,233) <hr/> 22,966,874 <hr/> \$ 31,421,675	<p>Total Governmental Fund Balances \$ 22,966,874</p> <p><i>Amounts reported for governmental activities in the statement of net assets are different because</i></p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 12,548,739</p> <p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Taxes</td> <td style="width: 10%; text-align: right;">358,019</td> <td style="width: 40%;"></td> </tr> <tr> <td>Intergovernmental</td> <td style="text-align: right;">45,535</td> <td></td> </tr> <tr> <td>Miscellaneous</td> <td style="text-align: right;">7,791</td> <td></td> </tr> <tr> <td>Total</td> <td style="border-top: 1px solid black; text-align: right;">411,345</td> <td></td> </tr> </table> <p>Long-term liabilities, including bonds, payable, are not due and payable in the current period and therefore are not reported in the funds.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">General Obligation Bonds</td> <td style="width: 10%; text-align: right;">6,950,895</td> <td style="width: 40%;"></td> </tr> <tr> <td>Energy Notes</td> <td style="text-align: right;">75,000</td> <td></td> </tr> <tr> <td>Asbestos Notes</td> <td style="text-align: right;">18,919</td> <td></td> </tr> <tr> <td>Compensated Absences</td> <td style="text-align: right;">1,443,481</td> <td></td> </tr> <tr> <td>Accrued Interest Payable</td> <td style="text-align: right;">27,901</td> <td></td> </tr> <tr> <td>Pension Obligation Payable</td> <td style="text-align: right;">136,026</td> <td></td> </tr> <tr> <td>Total</td> <td style="border-top: 1px solid black; text-align: right;">(8,652,222)</td> <td></td> </tr> </table> <p><i>Net Assets of Governmental Activities</i> <u><u>\$ 27,274,736</u></u></p> <p>See accompanying notes to the basic financial statements</p>	Taxes	358,019		Intergovernmental	45,535		Miscellaneous	7,791		Total	411,345		General Obligation Bonds	6,950,895		Energy Notes	75,000		Asbestos Notes	18,919		Compensated Absences	1,443,481		Accrued Interest Payable	27,901		Pension Obligation Payable	136,026		Total	(8,652,222)	
Taxes	358,019																																	
Intergovernmental	45,535																																	
Miscellaneous	7,791																																	
Total	411,345																																	
General Obligation Bonds	6,950,895																																	
Energy Notes	75,000																																	
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Accrued Interest Payable	27,901																																	
Pension Obligation Payable	136,026																																	
Total	(8,652,222)																																	

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

	General	Debt Service	Project Construction	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,030,074	\$ 596,660	\$ -	\$ 335,119	\$ 4,961,853
Intergovernmental	11,018,378	72,048	7,172,198	1,729,437	19,992,061
Interest	111,687	-	230,744	-	342,431
Tuition and Fees	13,455	-	-	-	13,455
Extracurricular Activities	-	-	-	92,441	92,441
Classroom Materials and Fees	358	-	-	11,286	11,644
Miscellaneous	25,788	-	5,150	114,537	145,475
Total Revenues	15,199,740	668,708	7,408,092	2,282,820	25,559,360
Expenditures					
Current:					
Instruction:					
Regular	7,640,743	-	-	315,957	7,956,700
Special	1,171,124	-	-	786,309	1,957,433
Vocational	111,772	-	-	659	112,431
Other	148,539	-	-	91,100	239,639
Support Services:					
Pupils	667,312	-	-	222,295	889,607
Instructional Staff	1,087,804	-	-	423,587	1,511,391
Board of Education	30,598	-	-	-	30,598
Administration	1,583,354	-	-	46,564	1,629,918
Fiscal	324,750	23,528	-	10,389	358,667
Business	15,866	-	-	-	15,866
Operation and Maintenance of Plant	1,272,449	-	-	14,400	1,286,849
Pupil Transportation	736,251	-	-	-	736,251
Central	775	-	-	10,411	11,186
Operation of Non-Instructional Services	-	-	-	2,577	2,577
Extracurricular Activities	263,029	-	-	126,593	389,622
Capital Outlay	7,350	-	6,469,903	37,645	6,514,898
Debt Service:					
Principal	-	465,406	-	-	465,406
Interest	-	361,960	-	-	361,960
Total Expenditures	15,061,716	850,894	6,469,903	2,088,486	24,470,999
Excess of Revenue Over/(Under) Expenditures	138,024	(182,186)	938,189	194,334	1,088,361
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	157	-	-	-	157
Miscellaneous Revenues	192,973	-	-	-	192,973
Miscellaneous Expenses	(127,405)	-	-	-	(127,405)
Transfer In	28,592	-	-	55,762	84,354
Transfer Out	(55,776)	-	-	(28,592)	(84,368)
Total Other Financing Sources (Uses)	38,541	-	-	27,170	65,711
Net Change in Fund Balances	176,565	(182,186)	938,189	221,504	1,154,072
Fund Balances Beginning of Year, as Restated (See Note 20)	2,427,843	530,255	16,575,360	2,279,344	21,812,802
Fund Balances End of Year	\$ 2,604,408	\$ 348,069	\$ 17,513,549	\$ 2,500,848	\$ 22,966,874

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in the 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 \$ 1,154,072

***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 these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Assets Additions	6,738,833
Current Year Depreciation	<u>(351,719)</u>

Total 6,387,114

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Proceeds from Sale of Capital Assets	(157)
Loss on Disposal of Capital Assets	<u>(54,899)</u>

Total (55,056)

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

Taxes	4,988
Intergovernmental	45,530
Miscellaneous	<u>(622)</u>

Total 49,896

Repayment of bond and note principals are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

465,406

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

2,182

Some expenses reported in the statement of activities, such as compensated absences and pension obligation payable which represents contractually required pension contributions, do not required the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Intergovernmental Payable	(15,718)
Compensated Absences Payable	<u>(56,260)</u>

Total (71,978)

Change in Net Assets of Governmental Activities \$ 7,931,636

See accompany notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
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 Amount		Actual	Variance with Final Budget Over/ (Under)
	Original	Final		
<u>Revenue:</u>				
Taxes	\$ 3,445,813	\$ 3,904,889	\$ 3,904,892	\$ 3
Intergovernmental	11,223,312	11,018,276	11,018,378	102
Tuition	13,705	13,455	13,455	-
Extracurricular Activities	118,436	101,600	116,273	14,673
Classroom Materials and Fees	365	358	358	-
Miscellaneous	5,545	4,973	4,973	-
Total Revenues	14,807,176	15,043,551	15,058,329	14,778
<u>Expenditures:</u>				
Instruction:				
Regular	7,479,482	7,856,718	7,712,566	144,152
Special	1,135,157	1,198,545	1,170,693	27,852
Vocational	108,751	113,388	112,155	1,233
Other	147,495	178,700	152,112	26,588
Support Services:				
Pupils	674,792	787,524	695,917	91,607
Instructional Support	1,048,819	1,280,834	1,081,653	199,181
Board of Education	30,560	40,553	31,517	9,036
Administration	1,554,932	1,681,029	1,603,610	77,419
Fiscal	316,950	346,646	326,872	19,774
Business	34,934	48,210	36,028	12,182
Operation and Maintenance of Plant	1,241,254	1,424,552	1,280,112	144,440
Pupil Transportation	879,325	1,070,414	906,853	163,561
Central	751	1,530	775	755
Extracurricular Activities	253,419	268,394	261,352	7,042
Capital Outlay	7,127	7,625	7,350	275
Total Expenditures	14,913,748	16,304,662	15,379,565	925,097
Excess of Revenues Over/ (Under) Expenditures	(106,572)	(1,261,111)	(321,236)	939,875
<u>Other Financing Sources/(Uses):</u>				
Proceeds from Sale of Fixed Assets	-	157	157	-
Refund of Prior Year Expenditures	-	14,954	20,810	5,856
Miscellaneous Revenues	1,450,000	1,678,622	1,680,067	1,445
Miscellaneous Expenditures	(1,700,000)	(1,509,556)	(1,509,556)	-
Advance In	-	165,380	159,524	(5,856)
Advance Out	-	-	(97,240)	(97,240)
Transfer In	-	30,919	28,592	(2,327)
Transfer Out	-	(50,000)	(55,776)	(5,776)
Total Other Financing Sources/(Uses)	(250,000)	330,476	226,578	(103,898)
Net Change in Fund Balance	(356,572)	(930,635)	(94,658)	835,977
Fund Balance/(Deficit) at the Beginning of Year, Restated (See Note 19)	2,567,074	2,567,074	2,567,074	-
Prior year encumbrances appropriated	216,214	216,214	216,214	-
Fund Balance/(Deficit) at the End of Year	<u>\$ 2,426,716</u>	<u>\$ 1,852,653</u>	<u>\$ 2,688,630</u>	<u>\$ 835,977</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Statement of Fund Assets
Proprietary Fund
June 30, 2003

	Business-Type Activities - Enterprise Fund
	Lunchroom
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 131,697
Receivables:	
Accounts	1,254
Intergovernmental	57,107
Inventory Held For Resale	15,655
Materials and Supplies Inventory	1,865
<i>Total Current Assets</i>	207,578
Capital Assets, Net of Accumulated Depreciation	54,493
<i>Total Assets</i>	262,071
Liabilities	
Accounts Payable	34,866
Accrued Wages	37,519
Due to Other Funds	26,802
Intergovernmental Payable	312
<i>Total Current Liabilities</i>	99,499
Long-Term Liabilities:	
Compensated Absences Payable	12,652
<i>Total Liabilities</i>	112,151
Net Assets	
Invested in Capital Assets, Net of Related Debt	54,493
Unrestricted	95,427
<i>Total Net Assets (Deficit)</i>	\$ 149,920

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	Business-Type Activities - Enterprise Fund
	Lunchroom
Operating Revenues:	
Food Services	\$ 261,267
<i>Total Operating Revenues</i>	<i>261,267</i>
Operating Expenses:	
Salaries	243,940
Fringe Benefits	105,405
Purchased Services	3,517
Materials and Supplies	342,348
Depreciation	8,397
Other	642
<i>Total Operating Expenses</i>	<i>704,249</i>
<i>Operating Income (Loss)</i>	<i>(442,982)</i>
Non-Operating Revenues (Expenses):	
Intergovernmental	464,821
<i>Total Non-Operating Revenues</i>	<i>464,821</i>
<i>Change in Net Assets</i>	<i>21,839</i>
<i>Net Assets (Deficit) Beginning of Year, Restated (See Note 20)</i>	<i>128,081</i>
<i>Net Assets (Deficit) End of Year</i>	<i>\$ 149,920</i>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

Business-Type Activities -
- Enterprise Fund

Lunchroom

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$	261,267
Cash Payments to Employees for Services		(246,927)
Cash Payments for Employees Benefits		(107,791)
Cash Payments for Goods and Services		(233,790)
Other Cash Payments		(4,923)

Net Cash Provided by (Used in) Operating Activities (332,164)

Cash Flows from Noncapital Financing Activities

Grants Received 379,519

Net Cash Provided by (Used in) Noncapital Financing Activities 379,519

Net Increase (Decrease) in Cash and Cash Equivalents 47,355

Cash and Cash Equivalents Beginning of Year, Restated (See Note 20) 84,342

Cash and Cash Equivalents End of Year \$ 131,697

**Reconciliation of Operating Loss to Net Cash
Provided by (Used in) Operating Activities**

Operating Income (Loss) \$ (442,982)

Adjustments:

Depreciation		8,397
Intergovernmental Revenue		85,302
(Increase) Decrease in Assets:		
Accounts Receivable		(72)
Intergovernmental Receivable		(7,486)
Inventory Held for Resale		(6,940)
Materials and Supplies Inventory		2,327
Increase (Decrease) in Liabilities:		
Accounts Payable		34,661
Accrued Wages		5,025
Compensated Absences Payable		(6,618)
Intergovernmental Payable		69
Due to Other Funds		(3,847)

Total Adjustments 110,818

Net Cash Provided by (Used in) Operating Activities \$ (332,164)

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2003

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 35,743
Accounts Receivable	63
	35,806
<i>Total Assets</i>	35,806
Liabilities	
Accounts Payable	2,230
Payables to the Governmental Activities	633
Due to Students	32,943
	32,943
<i>Total Liabilities</i>	\$ 35,806

See accompanying notes to the basic financial statements

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Conneaut Area City School District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city district as defined by Section 3311 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002, was 2,354. The District employed 194 certified employees and 111 non-certificated employees.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the District is financially accountable. This report includes all activities considered by management to be part of the District by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government also may be financially accountable for governmental organizations that are fiscally dependent on it.

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of the debt or levying of taxes. Based on the foregoing criteria, the School District has no component units.

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

Management believes the financial statements included in this report represent all of the funds of the District over which the District is financially accountable.

B. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the various funds of the District are grouped under the broad fund categories governmental, proprietary, and fiduciary.

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

Debt Service Fund This fund is used to account for the accumulation of resources for the payment of long-term debt principal, interest, and fiscal charges.

Project Construction Fund This fund is used to account for all transactions related to acquiring and construction the new high school building.

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

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

Enterprise Fund Enterprise fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District's enterprise fund is:

Lunchroom Fund This fund accounts for the financial transactions related to the food service operations of the District.

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

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

C. Basis of Presentation

Government-wide Financial Statements The statement of net assets and statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business type activities (primarily supported by fees and charges).

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relation between the government-wide statements and the statements to governmental funds.

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is represented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

D. Basic of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary fund also use the accrual basis of accounting.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 4). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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 eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

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E. Budget and Budgetary Accounting

All governmental and proprietary fund types are subject to annual expenditure budgets. The Board follows the procedures outlined below in establishing the expenditure budget data reported in the basic financial statements:

Tax Budget A Tax Budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20th of each year, for the fiscal year commencing the following July 1st. The Board of Education normally adopts the Tax Budget at its regular board meeting in January.

Estimated Resources The County Budget Commission certifies its actions to the District by March 1st. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. During the month of July, this Certificate is amended to include any unencumbered balances from the preceding fiscal year.

Appropriations An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Board of Education usually adopts temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the September regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund at the object level.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations At the close of each year, the unencumbered balances of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments." During the fiscal year all investments were limited to money market accounts, certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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Investments are reported at cost except for investments in STAR Ohio which are reported at fair value. Fair value is based on quoted market prices.

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings accrue to the General and Capital Projects Funds as authorized by board resolution. Interest income earned in fiscal year 2003 totaled \$342,431; General Fund, \$111,687 and Construction Project Fund, \$230,744.

G. Taxes Receivable

The financial statements reflect taxes receivable as of June 30, 2003. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2003 and accordingly have been recorded as deferred revenue in the fund financial statements. Taxes that become delinquent are recorded as revenue in the government-wide financial statement.

H. Inventories

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

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first out basis. Inventory of proprietary funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund type when used. Inventories of proprietary funds consist of donated food and purchased food held for resale and is expensed when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

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J. Capital Assets

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the government activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	5 – 10 years	N/A
Building and Improvements	20 – 50 years	N/A
Furniture, Fixtures, and Equipment	8 – 20 years	20 years
Vehicles	10 years	10 years

K. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with fifteen or more years of service were included in the calculation of the long-term compensated absences accrual amount.

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Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. In proprietary funds, compensated absences are expensed when earned with the amount reported as a fund liability.

L. Interfund Balance

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

M. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits 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 fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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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 as reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid from them are not presented on the financial statements.

O. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks, property taxes, and debt service.

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

P. Net Assets

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

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

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. 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 during 2003.

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S. Estimates

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

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service. Operating expenses are necessary cost occurred to provide the good or service that is the primary activity of the fund.

Note 2 – Budgetary Basis of Accounting

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the “Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget (Non-GAAP) and Actual”.

The major differences between the budgetary basis of accounting and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures/expenses are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

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

<u>Net Change in Fund Balance</u>	
Budget Basis	\$ (94,658)
Net Adjustment for Revenue Accruals	(1,526,017)
Net Adjustment for Expenditure Accruals	2,064,866
Adjustment for Encumbrances	<u>(267,626)</u>
GAAP Basis	<u><u>\$ 176,565</u></u>

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Note 3 – Cash and Investments

State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 pass book accounts.

Monies held by the District which are not considered active are classified as interim. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts;

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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value; and
9. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 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.

Protection of the 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.

Deposits At fiscal year end, the carrying amount of the District's deposits was \$4,275,308 and the bank balance was \$4,449,999. Of the bank balance, \$200,000 was covered by federal depository insurance, and \$4,249,999 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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Investments GASB Statement No. 3, entitled *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* requires the District's investments to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the District's name. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Categorized Investments: Repurchase Agreements	\$312,614	\$312,614	\$312,614
Non-categorized Investment: STAR Ohio	0	20,628,276	20,628,276
Total Investments	\$312,614	\$20,940,890	\$20,940,890

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

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$25,216,198	\$0
Investments which are part of the Cash		
Repurchase Agreement	(312,614)	312,614
STAROhio	(20,628,276)	20,628,276
GASB Statement 3	\$4,275,308	\$20,940,890

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Notes to the Basic Financial Statements
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Note 4 – Property Tax

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Ashtabula County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was completed in 2002; an update will be done in 2005. The next revaluation is scheduled for 2008. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due February 14, with the remainder payable June 20. Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year.

Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually; the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Ashtabula County Treasurer collects property tax on behalf of the District and the Ashtabula County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2003 for operations was \$39.49 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2003 taxes were collected were as follows:

	2002	2003
Real Property-Commercial/Industrial	\$24,047,060	\$28,936,850
Real Property-Residential/Agricultural	103,068,570	125,862,290
Real Property-Public Utilities	1,059,500	1,093,290
Personal Property-General	20,385,500	19,719,620
Personal Property-Public Utilities	1,114,660	13,937,410
Total Assessed Value	\$159,707,290	\$189,549,460

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Note 5 – Capital Assets

In fiscal year 2003, the District discovered an understatement on the capital assets and misclassification of capital assets. The District also began to depreciate the capital assets in the governmental activities.

	<u>Balance</u> 6/30/2002	<u>Adjustment</u>	<u>GASB 34</u> <u>Adjustment</u>	<u>Balance</u> 7/1/2002
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 991,813	\$ -	\$ -	\$ 991,813
Construction in Progress	1,792,908	(1,450)	-	1,791,458
<i>Total Capital Assets, not being depreciated:</i>	<u>2,784,721</u>	<u>(1,450)</u>	<u>-</u>	<u>2,783,271</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	133,631	91,905	-	225,536
Buildings and Improvements	6,887,914	(995)	-	6,886,919
Furniture, Equipment and Fixtures	2,753,828	11,802	-	2,765,630
Vehicles	1,166,308	(99,863)	-	1,066,445
<i>Total Capital Assets, being depreciated:</i>	<u>10,941,681</u>	<u>2,849</u>	<u>-</u>	<u>10,944,530</u>
Less Accumulated Depreciation:				
Land Improvements	-	-	(115,006)	(115,006)
Building and Improvements	-	-	(4,757,298)	(4,757,298)
Furniture, Equipment, and Fixtures	-	-	(2,079,769)	(2,079,769)
Vehicles	-	-	(559,042)	(559,042)
<i>Total Accumulated Depreciation</i>	<u>-</u>	<u>-</u>	<u>(7,511,115)</u>	<u>(7,511,115)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>10,941,681</u>	<u>2,849</u>	<u>(7,511,115)</u>	<u>3,433,415</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,726,402</u>	<u>\$ 1,399</u>	<u>\$(7,511,115)</u>	<u>\$ 6,216,686</u>

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

	Balance 7/1/2002	Addition	Deletion	Balance 6/30/2003
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 991,813	\$ 37,560	\$ -	\$ 1,029,373
Construction in Progress	1,791,458	6,469,903	-	8,261,361
<i>Total Capital Assets, not being depreciated:</i>	<u>2,783,271</u>	<u>6,507,463</u>	<u>-</u>	<u>9,290,734</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	225,536	-	-	225,536
Buildings and Improvements	6,886,919	-	-	6,886,919
Furniture, Equipment and Fixtures	2,765,630	125,488	(116,439)	2,774,679
Vehicles	1,066,445	105,882	(83,197)	1,089,130
<i>Total Capital Assets, being depreciated:</i>	<u>10,944,530</u>	<u>231,370</u>	<u>(199,636)</u>	<u>10,976,264</u>
Less Accumulated Depreciation:				
Land Improvements	(115,006)	(399)	-	(115,405)
Building and Improvements	(4,757,298)	(129,055)	-	(4,886,353)
Furniture, Equipment, and Fixtures	(2,079,769)	(134,643)	108,734	(2,105,678)
Vehicles	(559,042)	(87,627)	35,846	(610,823)
<i>Total Accumulated Depreciation</i>	<u>(7,511,115)</u>	<u>(351,724)</u>	<u>144,580</u>	<u>(7,718,259)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>3,433,415</u>	<u>(120,354)</u>	<u>(55,056)</u>	<u>3,258,005</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,216,686</u>	<u>\$ 6,387,109</u>	<u>\$ (55,056)</u>	<u>\$ 12,548,739</u>
Business-Type Activities				
Furniture, Equipment and Fixtures	\$ 235,349	\$ -	\$ -	\$ 235,349
Vehicles	29,619	-	-	29,619
Less Accumulated Depreciation	<u>(202,078)</u>	<u>(8,397)</u>	<u>-</u>	<u>(210,475)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 62,890</u>	<u>\$ (8,397)</u>	<u>\$ -</u>	<u>\$ 54,493</u>

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 172,981
Special	17,707
Vocational	6,101
Other	664
Support Services:	
Pupil	11,177
Instructional Staff	15,579
Board of Education	360
Administration	19,191
Fiscal	4,941
Operation and Maintenance of Plant	5,608
Pupil Transportation	90,190
Extracurricular Activities	7,220
Total Depreciation Expense	\$ 351,719

Note 6 – Receivables

Receivables at June 30, 2003 consisted of taxes, accounts (miscellaneous), and intergovernmental grants and entitlements. 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 guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

Major Fund:	
Debt Service	\$26,407
Other Governmental Funds:	
Local Grants	13,932
Title VI-B	43,394
Title I	68,162
Title VI	2,055
Drug Free School Grant	4,374
Preschool Handicapped Grant	1,912
Title VI-R	18,386
Miscellaneous Federal Grants	4,669
Total Other Governmental Funds	156,884
Proprietary Fund:	
Lunchroom	57,107

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Note 7 – Interfund Transactions

A. Interfund Receivable/Payable

The interfund receivable/payable consisted of the following fund at June 30, 2003, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
Major Governmental Fund:		
General	\$126,418	\$0
Debt Service	0	51,829
Non-major Governmental Funds:		
Uniform School Supplies	0	678
Local Grants	0	32,017
Athletic and Music	0	4,853
Title VI-B	0	29,392
Drug Free School Grant	0	2,347
Miscellaneous Federal Grants	0	4,669
Fiduciary Fund:		
Student Activities	0	633
Total	\$126,418	\$126,418

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Fund:		
General	\$28,592	\$55,776
Non-major Governmental Funds:		
Uniform School Supplies	18,632	0
Athletic and Music	20,741	0
Title I	12,961	0
Preschool Handicapped Grant	3,428	28,592
Summer School	0	0
Fiduciary Fund:		
Student Activities	14	0

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Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorization. Transfers are also used to close out grants in any funds, including special revenue funds, that are no longer required.

C. Due from Other Funds/Due to Other Funds

Due from other funds/due to other funds for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	Due from Other Funds	Due to Other Funds
Major Governmental Fund:		
General	\$47,306	\$0
Non-major Governmental Funds:		
Local Grants	0	103
EMIS	0	189
DPIA	0	3,064
Ohio Reads	0	1,111
Summer School	0	29
Title VI-B	0	5,651
Title I	0	13,090
Title VI	0	106
Preschool Handicapped Grant	0	308
Title VI-R	0	2,265
Miscellaneous Federal Grants	0	2,379
Proprietary Fund:		
Lunchroom	0	26,802
Total	\$47,306	\$55,097

The primary purpose of the due from/due to is to account for the estimated workers' compensation premiums and pension obligations that are collected by the general fund before the actual amounts are due. The reason of due from other funds is \$7,791 lower than due to other funds is proprietary fund recognized an accrued pension obligation liability which governmental funds do not recognized as a liability.

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Note 8 – Defined Benefit Pension Plans

A. School Employees Retirement System

The 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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was 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 statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$319,848, \$307,032, and \$318,576, respectively; 33.81 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$211,705 representing the unpaid contribution for fiscal year 2003, including the surcharge, is recorded as a liability.

B. State Teachers Retirement System

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

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

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DC and Combine plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance 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.

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,179,348, \$1,097,472, and \$1,140,552, respectively; 82.16 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. \$210,485 representing the unpaid contribution for fiscal year 2003 is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System (SERS) or the State Teachers Retirement System (STRS) have an option to choose Social Security or SERS / STRS. As of June 30, 2003, three of the members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 9 – Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$379,076 for fiscal year 2003.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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For this fiscal year, SERS employer contributions to fund health care benefits were 5.83 percent 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 has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$178,595 during the 2003 fiscal year.

Note 10 – Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (11 and 12 month) are eligible for vacation time. The Superintendent and Treasurer are granted twenty days of vacation per year.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless approved by the Superintendent. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1-8	10
9-13	15
14-beyond	20

Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for both certified and classified employees is 300 days.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 55 days for both certified and classified employees.

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Note 11 – Risk Management

A. General Risk

The 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. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings at \$34,401,273 and contents at \$5,971,829.

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

B. Workers' Compensation

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

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

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C. Health Insurance

In July, 1987, the District joined the Ashtabula County Schools Council of Governments Employees Insurance Consortium to form a council of governments to insure its medical claims. The consortium currently includes seven member school districts. The insurance plan operates as a full indemnity program.

Note 12 – Notes and Long-Term Debt

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

	Principal Outstanding 6/30/2002	Additions	Reductions	Principal Outstanding 6/30/2003	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 7,335,895	\$ -	\$ (385,000)	\$ 6,950,895	\$ 395,000
Asbestos Notes Payable	24,325	-	(5,406)	18,919	5,406
Compensated Absences Payable	1,387,221	389,259	(332,999)	1,443,481	153,755
Total Governmental Activities Long-Term Liabilities	<u>\$ 8,747,441</u>	<u>\$ 389,259</u>	<u>\$ (723,405)</u>	<u>\$ 8,413,295</u>	<u>\$ 554,161</u>
Business-Type Activities					
Compensated Absences Payable	<u>\$ 19,270</u>	<u>\$ -</u>	<u>\$ (6,618)</u>	<u>\$ 12,652</u>	<u>\$ 450</u>

General Obligation Bonds In 1986, bonds were issued for the purpose of constructing and equipping a new high school building and improving the site thereof. The original issue was \$3,793,000 with a 7.35 percent interest rate. These bonds mature in December, 2006, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

The annual maturities of the general obligation bonds as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY2004	\$190,000	\$49,044	\$239,044
FY2005	190,000	35,031	225,031
FY2006	190,000	21,018	211,018
FY2007	190,000	7,006	197,006
	<u>\$ 760,000</u>	<u>\$112,099</u>	<u>\$872,099</u>

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Classroom Facilities Improvement Bonds In 2001 bonds were issued in the amount of \$6,590,895 for the purpose of constructing, renovating and equipping District facilities. The bonds will be repaid over 23 years at an interest rate of 5.125 percent. These bonds mature in December, 2023, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

The annual maturities of the general obligation bonds as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY2004	\$205,000	\$283,855	\$488,855
FY2005	215,000	274,981	489,981
FY2006	225,000	265,631	490,631
FY2007	230,000	262,095	492,095
FY2008	240,000	245,740	485,740
FY2009 & Thereafter	5,075,895	2,699,383	7,775,278
	\$ 6,190,895	\$4,031,685	\$10,222,580

Asbestos Notes Payable Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a loan of \$97,306 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$5,406 annually, with the first payment made in June 1989 and the final amount due December 2006.

The annual maturities of the asbestos notes as of June 30, 2003, as follows:

	Payment
FY2004	\$5,406
FY2005	5,406
FY2006	5,406
FY2007	2,701
	\$ 18,919

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0 percent of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .01 percent of the total assessed value of property. The District has no unvoted debt; the District's unvoted debt limit is \$189,549. The voted debt limit at June 30, 2003 is \$16,711,382.

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Note 13 – Notes Payable

Energy Notes Payable In December, 1994, the Board of Education authorized the issuance of H.B. 264 energy notes in the amount of \$750,000 to meet current cash flow requirements. The notes mature in annual installments through December, 2003, with interest payable at 5.05 percent. The annual maturities of the notes as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY2004	\$ 75,000	\$1,912	\$76,912

Note 14 – Jointly Governed Organizations

Northeast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based on a per pupil charge. Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers. The District was represented on the Governing Board during fiscal year 2003. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Ashtabula County Joint Vocational School District The District is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a nine-member board of education and is funding by levying millage and state and federal support.

The District has no ongoing financial interest or financial responsibility to the Ashtabula County Joint Vocational School District.

Northeast Ohio Instructional Media Center (NEOIMC) NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing a quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, the county school district superintendent from each participating county, one city school district superintendent, and two local school district superintendents, rotating every two years. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

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Northeast Ohio Special Education Regional Resource Center (NEO/SERRC) NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate each year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio, 44512.

Note 15 – Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

Note 16 – State School Funding Decision

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

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

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

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Notes to the Basic Financial Statements
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Note 17. Statutory Reserves

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Total
Set-Aside Cash Balance, 7/1/02	\$ 164,030	\$ 76,923	\$ 240,953
Current Year Required Set-Aside	334,116	334,116	668,232
Current Year Offset Credits	(78,676)	(201,568)	(280,244)
Qualifying Disbursements	(337,314)	(209,471)	(546,785)
Total	\$ 82,156	\$ -	\$ 82,156
Cash Balance Carried Forward to FY 2004	\$ -	\$ -	\$ -

A schedule of the restricted assets at June 30, 2003, follows:

Amount Restricted for Textbooks	\$82,156
Total Restricted Assets	\$82,156

Note 18 – Accountability and Compliance

Fund Deficits

Fund balances at June 30, 2003 include the following individual fund deficit:

Funds	Deficit Fund Balance
Nonmajor Special Revenue Funds	
Uniform School Supplies	\$34
Local Grants	14,162
DPIA	1,024
Extended Learning Opportunity	5
Title VI-B	72,767
Title I	35,878
Miscellaneous Federal Grants	1,690

The fund deficit in all funds is the result of the recognition of liabilities in accordance with general accepted accounting principles. Management is analyzing the operations of these funds to determine appropriate steps to eliminate the deficits.

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Note 19 – Restatement of Fund Balance on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual

At June 30, 2002, the general fund’s fund balance was incorrectly recorded on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual. In addition, general fund balances at June 30, 2002 were restated due to reclassifications of funds (See Note 20). The corrections were made for the current year and the changes were presented as follows.

	Ending Fund Balance at June 30, 2002	Fund Reclassification	Adjustments	Beginning Fund Balance at July 1, 2002
General Fund	\$ 2,543,871	291,861	(268,658)	\$ 2,567,074

Note 20 – Changes in Accounting Principals and Restatement of Fund Balance

Changes in Accounting Principles For the fiscal year 2003, the District has implemented GASB No. 34, “Basic Financial Statements – and Management 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”, GASB No. 41, “Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2002, there was no effect on fund balances as a result of implementing GASB Statements No. 37, 38, and 41.

Restatement of Fund Balances The restatements of fund balance for correction of prior year assets and liabilities, and fund reclassification had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported.

	General Fund	Debt Service	Construction Project	Other Governmental Funds	Total Governmental Funds
Fund Balances at June 30, 2002	\$ 2,083,817	\$ 390,541	\$ 16,715,074	\$ 2,250,313	\$ 21,439,745
Fund Reclassification	2,643	-	-	20,644	23,287
Restated Assets	(235,379)	455,224	(455,224)	-	(235,379)
Restated Liabilities	576,762	(315,510)	315,510	8,387	585,149
Fund Balances at July 1, 2002	\$ 2,427,843	\$ 530,255	\$ 16,575,360	\$ 2,279,344	\$ 21,812,802

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In fiscal year 2003, the Lock Fund which previously reported under the Internal Service Fund, and Trust Funds which previously reported under the Fiduciary Fund were reclassified to the General Fund. In addition, the Uniform School Supplies Fund which previously reported under the Enterprise Fund, and Expendable Fund which previously reported under Fiduciary Funds were reclassified to Special Revenue Funds.

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

The government-wide financial statements split the School District's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the changes in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The transition from governmental fund balance to net assets of the governmental activities is presented as follow:

	General Fund	Debt Service Fund	Construction Project Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances at June 30, 2002	<u>\$2,427,843</u>	<u>\$ 530,255</u>	<u>\$ 16,575,360</u>	<u>\$ 2,279,344</u>	<u>\$21,812,802</u>
Adjustments:					
Due from Other Funds					8,413
GASB No. 34					
Capital Asset					6,216,713
GASB Interpretation No. 6					
Compensated Absences Payable					(1,387,221)
Deferred Revenue					353,031
Intergovernmental Payable					(120,308)
Accrued Interest Payable					(30,083)
Long-term Liabilities					<u>(7,510,220)</u>
Governmental Activities Net Assets at June 30, 2002					<u>\$19,343,127</u>

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The transition from proprietary fund equity to net assets of the business-type is presented as follows:

	<u>Enterprise Fund</u>
Fund Equity at June 30, 2002	\$ 137,501
Fund Reclassification	(588)
Adjustments:	
Due to Other Funds	(8,413)
GASB Interpretation No. 6 Compensated Absences Payable	<u>(419)</u>
Business-type Activities Net Assets at June 30, 2002	<u><u>\$ 128,081</u></u>

In fiscal year 2003, the Trust Funds within the Fiduciary Fund were classified to General Fund. The effect was the assets and liability in the Fiduciary Fund decreased by \$289,216.

CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550		\$77,817		\$77,817
School Breakfast Program	05-PU-02 05-PU-03	10.553	\$15,410 45,964		\$15,410 45,964	
Subtotal -- School Breakfast Program			61,374		61,374	
National School Lunch Program	LL-P4-02 LL-P4-03	10.555	72,865 229,447		72,865 229,447	
Subtotal -- School National School Lunch Program			302,312		302,312	
Total U.S. Department of Agriculture □ Nutrition Cluster			363,686	77,817	363,686	77,817

U.S. DEPARTMENT OF EDUCATION
Passed Through The Ohio Department of Education:

Grants to Local Educational Agencies Title I School Subsidy	C1-S1 02 C1-S1 03	84.010	241,316 595,996		133,057 582,388	
Subtotal □ Title I School Subsidy			837,312		715,445	
<i>Special Education Cluster:</i>						
Special Education Grants to States Title VI-B Handicapped Flowthrough IDEA, Part B	6B-EC-02 P 6B-SF 02 P 6B-SF 03 P	84.027	59,840 252,578		32 33,118 251,811	
Subtotal □ Title VI-B Handicapped Flowthrough/IDEA, Part B			312,418		284,961	
Special Education - Preschool Grant Early Childhood Special Education, IDEA	PG-S1 02 P PG-S1 03 P	84.173	19,478		4,358 17,907	
Subtotal □ Preschool Grant/Early Childhood Spec. Education			19,478		22,265	
Total □ Special Education Cluster			331,896		307,226	

(Continued)

CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through The Ohio Department of Education:</i>						
(continued)						
Safe and Drug Free Schools and Communities State Grant	DR-S1 02	84.186	\$1,667		\$4,184	
Title IV-Safe and Drug Free Schools and Communities	DR-S1 03		13,098		5,790	
Subtotal □ Safe and Drug Free Schools Subsidy			14,765		9,974	
Continuous Improvement	G2-S1-01 P	84.276	0		8,795	
Eisenhower Professional Development State Grant Math and Science □ Subsidy	MS-S1 02	84.281	32		1,209	
Innovative Education Program Strategies Chapter 2 □ Subsidy	CS-S1 01	84.298	(231)		250	
	CS-S1 02		2,548		7,507	
Innovative Programs, Title V	CS-S1 03		8,492		4,937	
Subtotal □ Innovative Programs			10,809		12,694	
Title II-D, Technology Fund	TJ-S1 03	84.318	13,516		10,191	
Class Size Reduction Subsidy	CR-S1-02	84.340	35,949		25,286	
Renovation, IDEA Tech	AT-S3-02	84.352	2,251		2,251	
Title II-A, State Grants for Improving Teacher Quality	TR-S1-03	84.367	118,971		105,512	
Total □ U.S. Department of Education			1,365,501		1,198,583	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through The Ohio Department of Education:</i>						
Medicaid - CAFS		93.778	100,421		148,570	
Totals			\$1,829,608	\$77,817	\$1,710,839	\$77,817

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

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A --- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--- CHILD NUTRITION CLUSTER

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

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

NOTE C --- MATCHING REQUIREMENTS

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

NOTE D --- RE-ISSUANCE

The accompanying Schedule of Federal Awards Expenditures replaces the Schedule in the Conneaut Area City School District's fiscal year ended June 30, 2003 report package dated May 26, 2004. The Schedule was revised to include page 60 which was previously omitted.

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Auditor of State Betty Montgomery

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

Conneaut Area City School District
Ashtabula County
263 Liberty Street
Conneaut, Ohio 44030

To The Board of Education:

We have audited the financial statements of Conneaut Area City School District, Ashtabula County (the District) as of and for the year ended June 30 2003, and have issued our report thereon dated May 26, 2004. The District also adopted Governmental Accounting Standards Board Statement No. 34 and Interpretation No. 6. 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 Conneaut Area 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*. However we noted one immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated May 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Conneaut Area 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. However, we noted certain matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 26, 2004.

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

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

Betty Montgomery
Auditor of State

May 26, 2004



**Auditor of State
Betty Montgomery**

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

Conneaut Area City School District
Ashtabula County
263 Liberty Street
Conneaut, Ohio 44030

To The Board of Education:

Compliance

We have audited the compliance of Conneaut Area City School District, Ashtabula County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Conneaut Area City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Conneaut Area City School District's management. Our responsibility is to express an opinion on Conneaut Area 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, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Conneaut Area 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 Conneaut Area City School District's compliance with those requirements.

In our opinion, Conneaut Area 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 Conneaut Area 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 Conneaut Area 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 for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 26, 2004

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)() (i)	Type of Financial Statement opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Educational Cluster CFDA #s: 84.027, 84.173 and Nutrition Cluster CFDA #s: 10.550, 10.553 & 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2003

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>
2002-11104-001	The School District needs to adopt a Student Activity Manual to increase accountability over Student Activities	Fully Corrected



**Auditor of State
Betty Montgomery**

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Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CONNEAUT AREA CITY SCHOOL DISTRICT

ASHTABULA 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
SEPTEMBER 7, 2004**